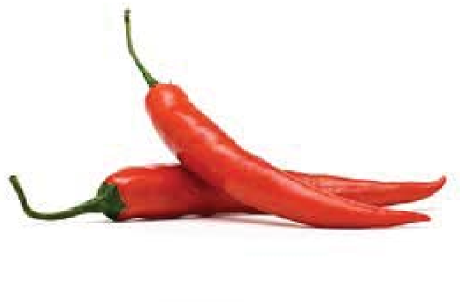
Chilies

marketupdate April 2019

Olam Spices



Paprika/Chili

With the industry facing several challenges and industry players scrambling for coverage outside of the normal ways of doing business, we are expecting to see some transformation in the paprika/chili industry in the next 12-18 months.

US Planting

US Paprika/Chilies planting for the 2019 crop has been completed. Overall costs for the 2019 crop are expected to be higher as a result of increasing grower costs related to inputs, gas and labor costs. More area will be under production in 2019, due to the tight inventory situation with a slight expansion into the Northern Mexico region for increased acreage. Movement of goods through the US-Mexico border and its impacts will need to be watched closely. High winds during the early part of the season did have some impact on the crop, but the long-term effects will need to be monitored.

Organic Chilies and Paprika production in the US is expected to increase in 2019 to meet the rising demand for US origin, fully traceable organic products.

With grower contracts completed and seed in the ground, monitoring the weather and its impact on the crop will be of prime importance.

Other Origins

China Post Harvest

After a very silent phase till the end of February, pricing of available raw material, especially higher color material, has started to increase in March/April. European buyers have been struggling to find quality raw material with the Chlormequat issue in the EU, the uncertainty of testing levels for Chlormequat in EU, and the levels of this chemical in Chinese raw material. In China, Chlormequat, a chemical which stunts the height of plants allowing them to grow more horizontally, is permitted for use in certain crops not including paprika/chilies.

Oleoresin processors have started to procure raw material at higher prices due to their dwindling inventory. Costs will start to escalate as cold warehousing is needed to preserve product quality during the hot summer months.

Prices of hot chili varieties in China have increased substantially over the last 2 months. This is creating a higher demand for paprika and lower color inventory to be blended with hot chilies for the domestic market.

Early indications on new crop transplanting in China have also started to trickle in. Due to a lack of crop rotation, yields have continued to decrease resulting in an expected decline in paprika acreage for the 2019 crop. Farmers are experimenting with newer hybrid varieties which are slightly hotter than paprika but have higher extractable color. The question on Chlormequat free Paprika from China is still unanswered. 2019 crop will also see higher levels of procurement from Oleoresin buyers.

In addition, there are few other industry challenges which have impacted Chinese pricing including the appreciation of the Chinese Yuan by close to 5% over the last 3 months increasing cost to exporters and indications of VAT refund for paprika to reduce by 3% in June.

Peru

Peru has seen a lot of turbulence in the paprika market in the last month. Farm level prices for paprika have climbed 30% in a few weeks. There are several reasons for the increase in price, including the kick-off of harvest in the Ica and Arequipa regions (product with lower Aflatoxin and Ochratoxin) and increased procurement activity from European buyers to procure Chlormequat free paprika.

Peru experienced unseasonal rains delaying harvest and there are reports of virus attack in traditional growing regions in Arequipa. Farmer level contracts at lower prices are under threat due to this aggressive buying. To get ahead of the Chlormequat situation in China, there are reports of European buyers trying to contract for next year to grow more paprika in Peru. But due to the virus issues in Arequipa, it is also becoming important to look for newer growing areas.

Other origins are contributing minor quantities into the overall trade flow and not in a position to impact the situation dramatically.

FUTURE OUTLOOK

- Availability of high visual color paprika and chili pepper in US will be very limited in 2019 in addition to the limited overall inventory availability for US paprika and chili peppers. This situation is expected to continue till Oct 2019.
- US grown organic paprika and chili peppers are currently available but selling out quickly due to increased demand.
- The market condition in China and the forecast for 2019 crop will not let the prices ease into 2020 and the challenge for good quality/chlormequat free raw material will continue to build.
- Do not see any new origin supporting raw material demands till end of 2019. Peru is being challenged to increase production, but finding new areas and conversion from more value deriving crops will increase prices for paprika. Although, the higher-level prices at farm gate is generating interest among farmers.