

DEHYDRATED GARLIC MARKET REPORT **August 2010**

Objectives / Disclaimer

This market report is prepared to provide an overview of the dehydrated garlic market based on information gathered from trade sources. It is designed to guide customers and potential customers of Champagne Foods on market direction. We do not pretend that this is exhaustive nor is it meant to be taken as a binding offer to supply.

Global Supply & Demand

China is by far the largest grower of fresh garlic with typical production estimates of circa 5.2 million tonnes of which 3 million tonnes is sold as fresh in the Chinese domestic market, 1.5 million tonnes is exported as fresh and the balance of approx. 700,000 tonnes is converted to about 175,000 tonnes of dehydrated product – primarily for export.

Chinese dehydrated makes up about 80% of global garlic dehydration with the overwhelming majority of the balance of approximately 45,000 tonnes coming from USA and India.

However, these numbers are historical as is the ability to switch on additional supplies of dried product simply by diverting material from the fresh stream to the dehydrated. Demand for dehydrated remains dominated by the USA at around 80,000 mt (45% of demand) followed by Europe at 30,000 mt, then the Far East at 20,000 mt, Central and LatAm at 15,000 mt, SE Asia at 15,000 mt.

In summary, China remains critical to the world supply of both fresh garlic and the dehydrated garlic products that derive from it. Therefore, the current desperate situation in China is having profound effects in the market place.

Supply Side – Recent History in China

It has to be recognized that the gleaning of accurate crop information in China is difficult but the fresh harvest in 2008 was large (estimated at 6.6 million tonnes) and this created an oversupply to the fresh market. This drove fresh prices down and encouraged dehydrators to build inventory estimated to total as much as 160,000 tonnes of the intermediate “crude flake” product as well as powder and other fractions, as they were able to buy raw materials at distressed prices. It also took fresh market out of the supply chain as growers were reluctant to sell at such low prices and certainly some material was either ploughed in or destroyed subsequently in preference to financing almost worthless inventory in high cost cold storage.

Subsequently, these low prices from both the fresh market and the dehydrators also had the effect of deterring growers from planting for the 2009 campaign as they were able to secure better prices for other crops, notably cereals for which there were government subsidies as well as higher earnings per hectare. The problem is further compounded by demand for cereals for animal feed as meat becomes a more important constituent part of the Chinese diet.

Estimates suggest that the 2009 fresh harvest was down to only about 4.6 million tonnes of which approx 600,000 tonnes would have been needed for seed stock for 2010 crop. Of the remaining 4 million tonnes only about 3% or 120,000 tonnes was used for dehydration into 30,000 tonnes of dried product to which you can add the carryover of 160,000 tonnes to give 190,000 tonnes most of which has already entered the supply chain.

Supply Side - Current Position in China

Estimates for the dehydrated carryover stocks suggest at the beginning of the 2010 campaign suggest that there was only about 2 months supply, mostly in the hands of speculators and much of it in the form of crude flake of dubious vintage, provenance and quality. Some sellers have resorted to processing 2007 crop flakes which have taken on moisture, redried them and then milled them. The finished product would not be suitable outside of certain Asian markets.

Plantings (typically in October 2009) for the 2010 harvest (May – July) were increased by about 15% which was still about 20% less than in a “normal” year. Furthermore, poor weather, in the form of heavy winter frosts followed by heavy rain in Q1 of 2010, has reduced the yield by typically a further 20% - so an already very bad situation has been exacerbated and then made worse again by being typically 2 -3 weeks late!

Garlic dehydration into crude flakes which normally takes place only between July and September has been terribly slow to start this year across the board and in all sectors ranging from the high class fully integrated operators right down to what might be kindly termed as the “informal sector”. Essentially, sellers appear to have gone into hibernation even though buyers were only looking to cover immediate needs sufficient to fulfill contracts. In fact, buyers of crude flakes now acknowledge that prices are NOT going to come down, will only continue to increase – but still cannot get offers.

Information received from a reliable source during w/c 16th August told the writer that only 10,000 tonnes of fresh garlic has been bought by processors sufficient to produce only 2,500 tonnes of dry flake – a tiny fraction of what is needed to feed the market place.

Prices are currently at all time highs. Fresh market prices of RMB 500-700 / tonne in early 2009 had moved to RMB 12,000 / tonne in April before offers became almost impossible to obtain. Crude flake prices which were typically RMB 2200 / tonne in January 2009 could also increase pro rata.

Recent weeks have seen an increase in the number of enquiries for garlic dehydrates from companies who believed themselves to be covered with other suppliers but who have been let down by late shipments (sometimes, but not always, attributable to shipping lines) and, in some cases by non shipments i.e. the product was just not available to meet shipping schedules.

Prognosis - Dehydrated Garlic - September 2010 onwards

New garlic crop arrivals in China are being used to fill demand from the fresh market sector, almost irrespective of price with precious little going into dehydration.

Supplies from the world's second biggest source, California, would be of limited solace even in a normal year. However, with so much growing capacity having migrated to China, and with much processing capacity having been eliminated, the opportunities to turn on additional supplies simply do not exist.

In fact, the Californians had already cut back plantings by 35% year on year and then lost 10% of the anticipated yield to poor weather which also ensured that they suffered a three week delay in commencement of harvest. To make matters worse again, there is evidence of some disease.

Subsequently, it is thought that the USA will only be able to supply about 45% of their fresh demand and about 20% of the USA domestic demand for dehydrated product of 80,000 tonnes – say somewhere between 15,000 and 20,000 tonnes.

Californian dehydrators have stated that they will taking care only of existing customers in line with pre-existing contracts, with no spot orders and with no accelerated rates of calls off.

Conclusions:

- It now looks like the next 12 months or so is going to be even more torrid than we had ever previously anticipated.
- There is a real probability of physical shortages, dishonoured contracts and late shipments
- Ironically, the bigger buyers could be worse hit than SME type users
- Every company, wherever their position in the supply chain, will have their own experiences but some buyers who did not take cover, at what seemed like high prices at the time, are going to be exposed to even larger increases.
- We are happy to speak with existing customers about forward positions, if needed, although most have worked with us in recent weeks to make the best decisions in difficult circumstances with minimal risk and a great deal of cost averaging!
- We would also try to help others if at all possible.

John W. Yeomans

Weybridge U.K. – August 2010