

DEHYDRATED GARLIC MARKET REPORT (Interim) **October 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.

Latest news on commercial supplies from China

(to be read in conjunction with our last report dated 24th August):

At the risk of appearing to be the proverbial prophets of doom, it is our responsibility to share with our clients whatever information we receive and to pass comment as appropriate.

The fundamental supply and demand situation for dehydrated garlic originating from China has not changed in the last 6 months. We are advised that:

1. The total quantity of dehydrated garlic produced from the new 2010 garlic crop did not exceed 7,000 mt. due to the high price of fresh material.
2. Carry forward stocks from 2009 were already depleted by the shortfall in production of dehydrated garlic in the 2009 crop year itself.
3. The quality of most of the remaining dehydrated garlic stock in China is questionable including, as it does, quantities of low grade material from 2007 or 2008 which was not exported at the time.
4. The total export volume is flat at about 150,000 mt p.a. which is fairly typical. However, this means that 143,000 tonnes of exported material could be old or adulterated material.
5. The level of physical cover in destination markets and with customers is appreciably lower than in normal years so export volumes should really be higher to compensate
6. Dehydrated garlic from the the next 2011 crop will not be available before September – October 2011 so the difficulties of matching demand with supply this year will be continue and worsen as we move into 2011.

Although the Chinese government has not taken any measures as yet, there is a growing concern about the inflation rate which already has reached 4.4% against a target of 3%. Fear that the government might start imposing maximum prices on certain food commodities has prompted several companies to start offering their long positions at discounted levels. The most affected commodities are cotton, soya oil, beans and meal, wheat and maize. However, this also affected fresh garlic where prices have been driven lower.

Furthermore the Chinese government announced that the credit ratio at companies, (the amount of cash versus loans), should be increased by 0.5 percentage points. Consequently some companies will sell any item in order to generate cash thus increasing the bearish sentiment in the market. The companies depressing the price of fresh garlic are not the traditional exporters of dehydrated garlic but the domestic distributors of fresh garlic.

In anticipation of the scarcity in dehydrated garlic and the high prices at the beginning of the crop some dehydrated garlic exporters acquired some material of dubious provenance, vintage and quality which they covered at lower prices. We advise our customers to be extremely vigilant regarding quality as this can be very poor indeed. Recently several containers of powder have been rejected by European clients due allegedly to the presence of starch and French chalk which have been used in the past to extend garlic powder and to enhance its colour.

Plantings of fresh garlic in much of China have now been completed but it is still far too early to make any proper estimates of 2011 crop prices. However, the fresh garlic stock in cold stores in China is fast being depleted by demand from the fresh markets of both China and its export destinations.

Today's price levels for good quality dehydrated material, whilst high, may start to look very attractive indeed and our advice is to ensure that customers have cover until such time as new crop 2011 becomes available in September – October 2011.

John W. Yeomans

Weybridge U.K. – November 2010