Vanilla – Market Report July 2016

The market still appears extremely tense – the situation is escalating in the last few weeks.

This year on 20th June the harvest of the Green Vanilla started in Madagascar. As expected the production volume will turn out comparatively high. We remain convinced that from the first quarter 2017 there will be a physical excess of supply. Despite these prospects the remaining old stocks as well as the new crop of Green Vanilla are traded at extremely high prices and approach the all-time highs of 2004.

What are the reasons behind this bull market?

It seems that some players were caught by surprise or simply mismanaged the situation. While we can only speculate about the reasons, what we know is that that some companies are short on supply and desperately seek for vanilla raw material in order to be able to fulfill sales commitments that they have to adhere to before the end of this calendar year.

One way out of this shortage on short-term is the so-called Quick Curing (a technology invented long decades ago), a type of fast drying and fermentation of the chopped green vanilla beans whereby the vanilla beans are stabilized and ready for export within a few weeks from picking. Apparently, the hereby caused difference in taste-profile compared with vanilla from traditional sun-curing seems to be less crucial (at least in times of urgent needs). Therefore, we are presently dealing with an amazingly high demand for Green Vanilla which explains the present exaggeration in terms of pricing. The latter will only speed up the worldwide decline in demand and thus we are in our opinion rapidly approaching a situation of oversupply that sooner or later will have to be reflected in the market prices. Bridging the time until 2017, when the majority of 2016 crop will have reached the user markets, remains a costly task.

Let us bear in mind that meanwhile production was triggered again in alternative origins due to the price-incentives and that this will lead to a continuing increase of supply in the coming years.
In our opinion, only a disastrous flowering in autumn in Madagascar could still extend the crisis. Considering the current prices, it is barely conceivable that dealers and producers bet on such a horror scenario and that they would buy more than needed at the current levels.

Today's high prices make risk management very complicated for all involved. Part of the market participants already back out due to financing problems or due to precaution or be it purely due to common-sense.

The experience from 2004 (price collapse within three weeks from US$ 550 to below US$ 80) is still in the minds of those who lived through that period in the vanilla business – it should be brought to the minds of those who were not there or those who do not recall.

GEBRÜDER WOLLENHAUPT GMBH