



2017 1st Half TEA REVIEW



MERCANTILE PRODUCE BROKERS (PVT) LTD

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TEA REVIEW - FIRST HALF 2017

2017 marks the 150th anniversary of “Ceylon Tea”. This world famous brew was given birth to by planting some tea seedling in a 19 acre plot within Loolecondera Estate by that great Scotsman, James Taylor.

This year’s calendar is filled with celebrations on account of this memorable milestone. The celebratory activities began with the unveiling of a bust of the “Father of Ceylon Tea” – the late James Taylor within the premises of the Sri Lanka Tea Board. As recorded in many tea related journals of yester year, Taylor came over to Sri Lanka (then Ceylon) as a 17 year old to lend his hand to the thriving Coffee cultivation and in 1867, was the man in charge of Loolecondera estate in Deltota, Galaha in the Kandy district. Though dying at a relatively young age of 57 years, Taylor is credited with not only planting the first tea seeds but also fine tuning the art of making a quality tea by plucking ‘two leaves and a bud’ which resulted in the early few pounds of tea produced in the country titillating the taste buds of tea lovers in the UK, so much so the beverage from the “Pearl of the Indian Ocean” became much sought after by the connoisseurs. This led to the export and sale of the first 23 lbs of Ceylon tea at the then famous London auction in 1873.

FIRST SIX MONTHS IN SUMMARY

HIGHEST EVER TEA PRICES

PRODUCTION marginally higher

EXPORTS 8 M/KILOS DOWN

EXPORT VALUE RS. 21 BILLION MORE THAN 2016

KENYAN 1ST HALF PRODUCTION LOSS 50 M/KILOS

PERIOD IN A NUT-SHELL

2017 began with a lot of buoyancy with tea prices continuing to move up from the highest ever levels recorded at the end of last year. A good way to commence the sesquicentennial year! However, production in the first half of 2017 was only 2.2 Million kilos more than 2016 whilst Exports were lagging behind by over 6 Million kilos. This follows on the dismal production and export performance of 2016. The drop in production was mainly in the first part of the period which was as a result of the dry, cold conditions that prevailed in most tea growing regions of the country during late December and most of January. The non application of certain weedicides further compounded the situation hurting the producer sector in terms of harvests. The second part of the period under review saw better cropping conditions leading to improvement in harvest .

Consequently, the upward movement in tea prices which began more sharply from about the beginning of the last quarter in 2016 continued until the end of the first quarter this year. Further price increases were seen even on to the second quarter due to the absence of decent volumes at auctions up to mid May. With the emergence of larger auction offerings, prices for all elevations began to fall. Thus at the end of the second quarter, High and Medium grown auction averages were below those of the first auction of 2017. The low grows however were still higher than at the beginning and displays the depth of demand in spite of coming in to the summer months.

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Although the supply situation is not encouraging, the unprecedented tea prices exclusively for ‘Ceylon Tea’ has made the producers to ‘smile’ again with some RPCs as well as most Private Tea Factory owners making record profits. The exporters on the other hand are still trying to recover from the setbacks experienced during the period 2015 – 2016 with the trading environment yet not conducive for profitable business due to very high and ever escalating tea prices.

Heavy rains caused some devastation in the month of May though not as bad as in 2016. This helped production to increase in most planting districts. These harvests are still behind those of 2013 – 2015. Fertilizer is now applied in greater measure in spite of the removal of the subsidy as the current price levels have never been so good for the growers. Weather on the other hand has been unpredictable and producers hope that conditions conducive for increased harvest will prevail in the months of October and November unlike last year so that the usual ‘mini rush’ cropping period will not be adversely affected.

ECONOMY

Sri Lanka's external sector showed signs of revival with a significantly improved trade balance and continuous inflows to the government's securities market in June 2017. A substantial growth in the overall Export performance largely driven by huge increases in Industrial and Agri exports and a reduction in the imports brought about a notable improvement to the trade balance in the month of June. Exports expanded for the 4 consecutive months with June netting USD 987 Million, registering a 10% YoY growth. Higher exports of transport equipment and Food & Beverages were responsible for the sharp rise in Industrial exports whilst **Tea was the major contributor to the growth in agriculture exports** with a 14 % increase in revenue in spite of a lower export volume. The textile and garment exports which usually dominates the Industrial sector accounting for approx. 40%, declined by 7.5 % YoY for the month of June to USD 398 Million due mainly to lower off takes to USA and EU markets.

Trade Balance deficit narrowed in June 2017 from USD 775 Million to USD 554 Million. The cumulative deficit for the first half of the year however increased by USD 602 Million on account of a 9% increase in imports. Exports increased by 5.2% but not sufficient to wipe out the gain in imports.

Inflation in June 2017 saw the Colombo Consumer Price Index (CCPI) increasing to 6.1 % (from 5.5%) and CCPI core slowing to 5.1% (from 5.4 %) on year-on-year basis. The National Consumer Price Index (NCPI) decreased to 6.3% (from 6.4%) and NCPI core similarly to 4.1% (from 7.5%) on year-on-year basis.

Rupee continued to fall against the US dollar as well as other currencies.

GLOBAL ECONOMY

As per the World Economic Outlook update for July by the IMF, the global growth is projected to grow at 3.5% in 2017 and 3.6% in 2018.

Oil prices declined more than 8% in June, to its lowest level for 2017. However July improved by 4% month on month to USD 47 per barrel and by late August has gained 9% on this. The improvement is as a result of the recent decision by OPEC to cut production to help clear excessive global stocks and boost flagging prices.

According to the National Bureau of Statistics (NBS), China recorded a GDP growth of 6.9% YoY basis for the Q2 of 2017 which was

higher than the expectations (6.8 per cent). This boost in growth was in part driven by firmer exports and production. However, IMF warns that China's debt boom will lead to a financial crisis. The growth in China has been propelled up by rapid increases in debt in recent years and nominal credit to the nonfinancial sector more than doubled in the last 5 years.

AUCTION OFFERINGS

1st Quarter

SALE NO.	1	2	3	4	5	6	7	8	9	10	11	12	13
QTY ON OFFER 2017 (In million kgs)	6.7	6.3	7.8	7.7	7.1	5.7	5.9	5.7	4.7	5.0	5.3	5.3	5.4
UNSOLD %	3.0	3.2	2.6	32.5	8.4	3.6	3.4	5.3	4.2	2.0	3.8	1.9	3.7
QTY ON OFFER 2016 (In million kgs)	6.1	6.0	7.4	7.0	6.5	6.5	6.6	6.1	6.2	6.3	6.0	6.2	5.8
UNSOLD %	6.5	8.7	9.4	12.8	10.8	7.5	10.6	11.5	6.4	4.8	5.0	4.8	3.2

The cumulative auction offerings for the months of February, March and April are the lowest for the 3 months since 2012.

2nd Quarter

SALE NO.	14	15	16	17	18	19	20	21	22	23	24	25
QTY ON OFFER 2017 (In million kgs)	5.5	6.0	6.2	6.5	4.8	8.3	8.5	7.5	7.1	7.7	6.5	5.9
UNSOLD %	1.8	3.3	3.2	3.1	5.8	3.6	5.9	7.4	5.6	29.6	5.8	8.2
QTY ON OFFER 2016 (In million kgs)	5.6	4.9	5.6	5.8	5.6	7.3	7.1	7.3	7.5	6.0	6.8	6.5
UNSOLD %	5.3	2.0	1.8	1.7	3.5	5.5	5.6	2.7	6.6	6.6	7.3	5.6

The quantity offered for sale in the first half this year was marginally higher than 2016. The first 5 auctions of 2017 had a larger quantity on offer than the corresponding sales of last year following better cropping conditions in the last two months of 2016. Auction offerings declined thereafter and continued in that fashion until sale no.14. Higher crops in March and April in comparison to 2016 pushed weekly quantities from Sale no.15 to 23 above those of corresponding sales in the previous year except Sale nos. 18 & 22 which were artificially restricted on account of Vesak holidays. The last 2 sales of the period under reference, i.e. nos. 24 & 25 too were lower than 2016.

Unsold quantity in January and February were averaging approx. 4% against 9% last year whilst in March the situation improved to little under 3% vis-à-vis 4.5% in 2016. April was around 3% for both years but May and June recorded 5.2% and 6.5%. The corresponding figures for last year were 3.8% and 6.5% respectively.

WEATHER

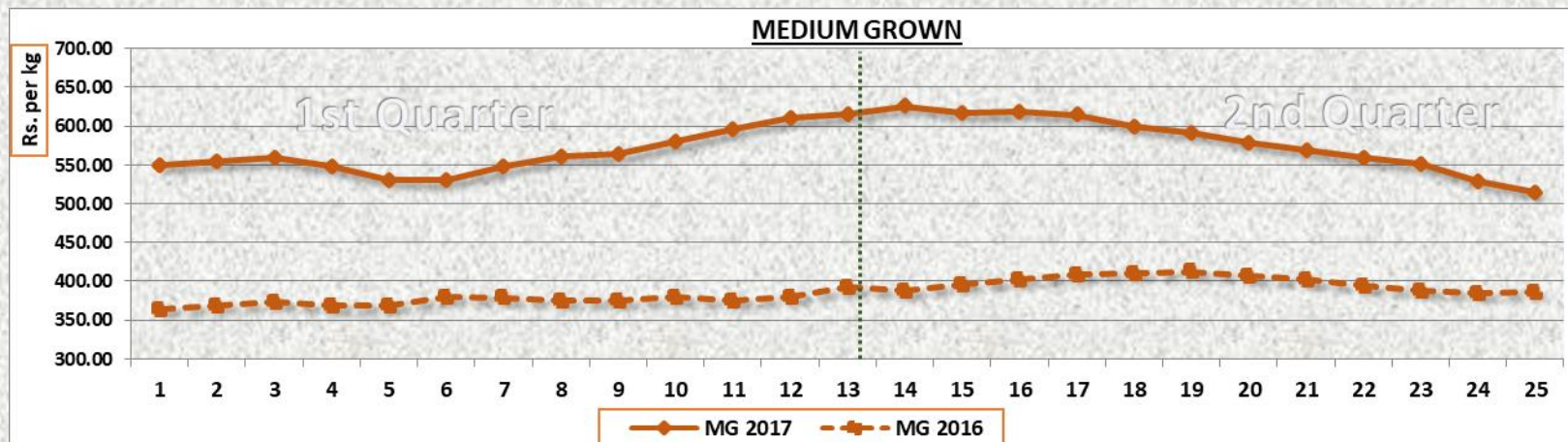
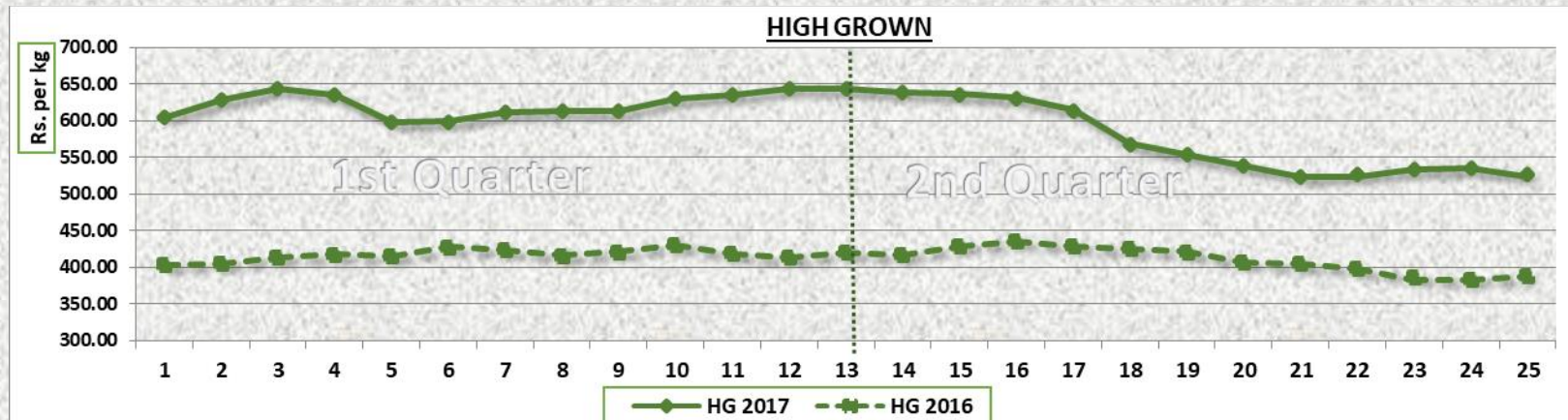
Dry overcast conditions giving way to cold nights with low temperatures heralded January and continued in that manner throughout the month but ended wet in most planting districts. Low grown in particular had heavy rain fall. Dry sunny days with cold nights returned in the early part of February but light rains with overcast conditions engulfed the Western and Nuwara Eliya sector towards the end of the month. Uva and Low grown were warm and dry in the middle part of February but widespread showers with strong winds were experienced towards the end of the month and in to early March. Warm, humid conditions prevailed across all planting districts through the second and third week of March but by the end and in to early April heavy to scattered showers were experienced.

Middle of April was mostly dry in High and Medium elevations whilst Low grown continued wet in to early May.

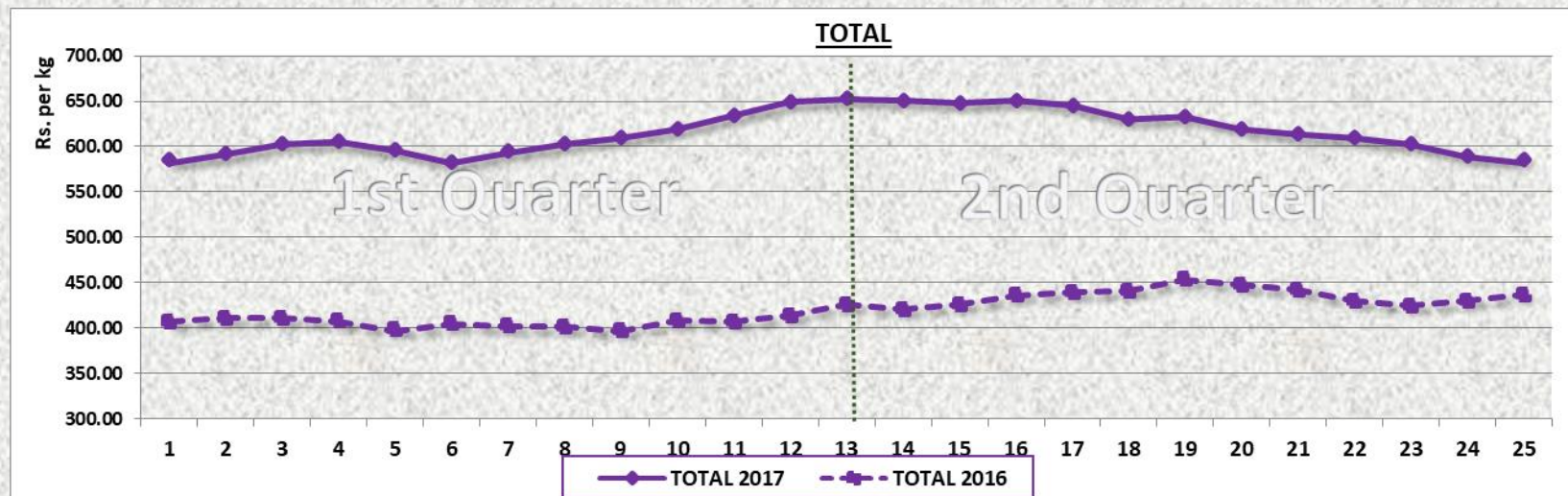
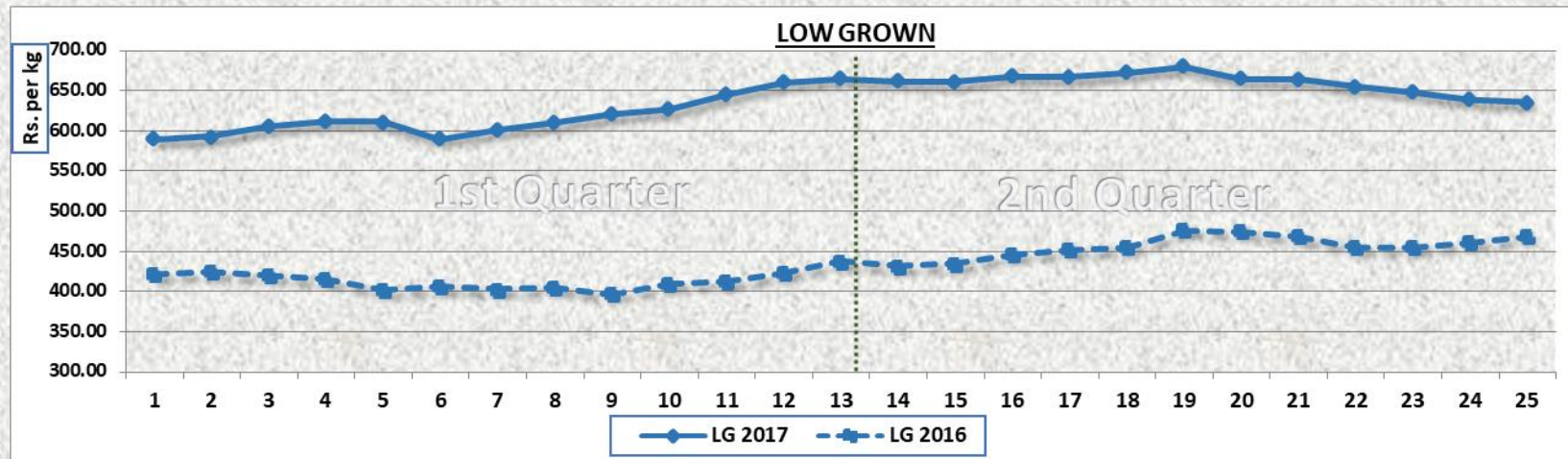
Sunny dry weather was experienced in the Western and Nuwara Eliya sector most of May but Uva and Low grown planting districts experienced bright weather during day time and isolated evening showers. End May brought on heavy rainfall in the lower elevations which gave way to light showers in all planting areas in June with strong winds engulfing the Eastern sector. Westerns were mostly overcast and gloomy in the latter part of June. Uva region was more warmer with a few isolated showers whilst Low grown planting districts experienced bright mornings and scattered afternoon/evening showers during most of the latter half of the month

TEA PRICES

Weekly Averages



Weekly Averages



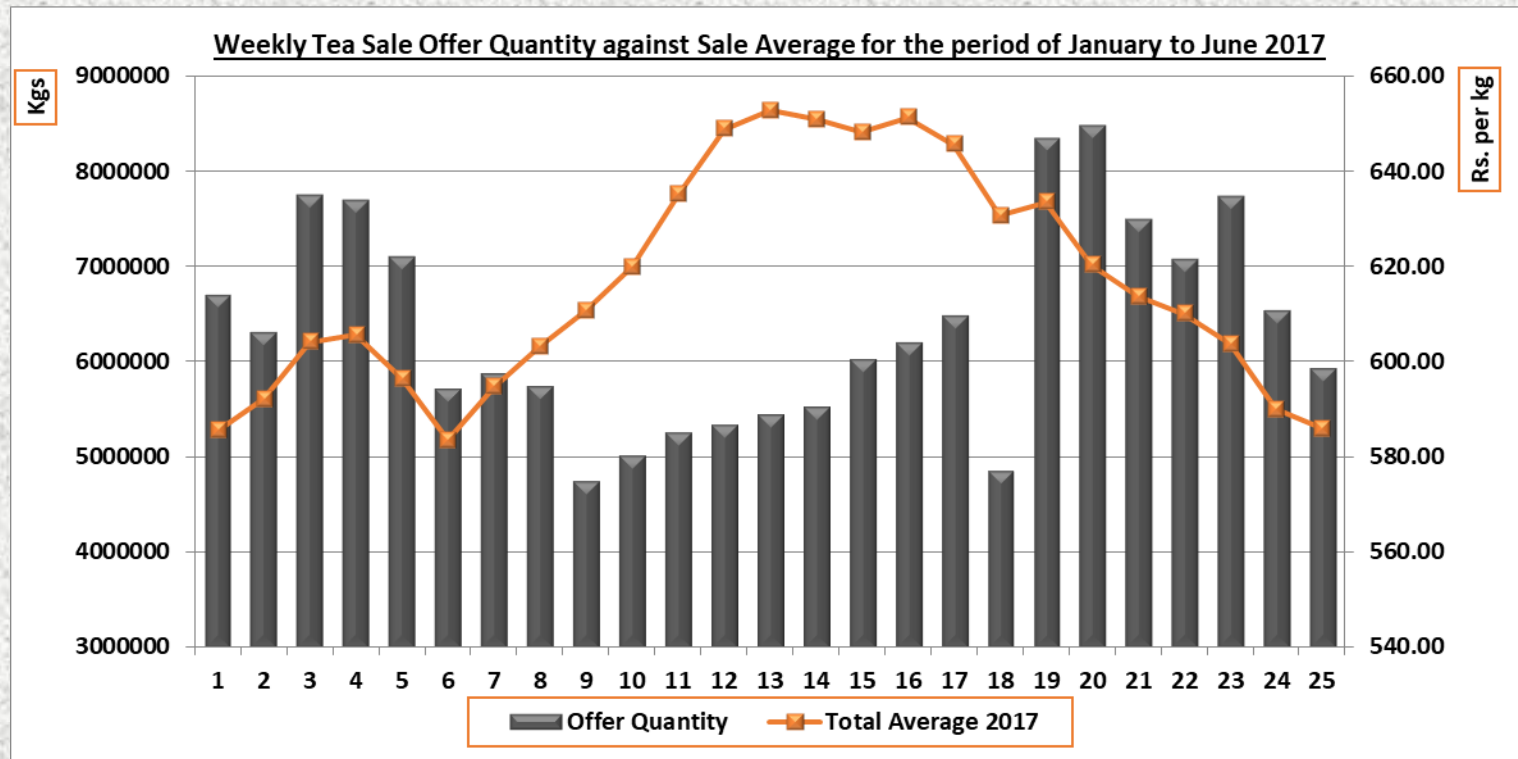
The total average at the first sale in 2017 of Rs 585.51 was higher than the concluding auction in 2016. Prices continued to move up till Sale no.4 reaching Rs 605.59 and a slight dip was evident in the following 2 auctions. Thereafter, the total auction average advanced continuously until Sale no. 13 reaching a high of Rs 652.77. Between Sale nos 14 & 19 an “up and down” trend was witnessed. From sale no. 20 a steady decline was experienced with the last sale in the period under review, i.e. Sale no. 25 registering a price of Rs 585.87. This is still higher than Rs 580.46 registered at the last auction 2016.

Elevation wise, High grows commencing at Rs 605.12, much higher than the record price achieved at the last sale in 2016 of Rs 577.68 moved up to reach Rs 643.83 at Sale no. 3. Following a little correction in the next few sales, began once again to move up to a new record weekly average of Rs 644.10 at Sale no. 12. Thereafter, a downward slide began almost at the end of the first quarter and continued through the second, reaching a low of Rs 524.12 at Sale no 21 and finishing the half year at Rs 526.39.

Mediums followed a similar pattern to the High grows reaching a ‘high’ of Rs 625.86 at the last sale in the first quarter and finished the half year at Rs 515.09 which is Rs 14/- behind the highest this elevation achieved in 2016.

Low grows opened the year a little below the average at which it concluded 2016, i.e. Rs 588.35 vs Rs 592.64. Until Sale no.4, the elevation average moved up and after a small downward correction in the next 2, a steady rise in prices were witnessed ending the 1st quarter at Rs 664.01. Then a slight “up and down” trend prevailed from Sale no. 14 . The record highest Low grown weekly average of Rs 679.38 was achieved at sale no. 19. Since then a steady decline prevailed finishing off the first 6 months at Rs 633.48.

WEEKLY PRICE TREND vs WEEKLY SALE QUANTITIES



Weekly prices move up when sale offerings are low and vice versa when offerings are high is clearly evident from the above. This confirms that there is a definite correlation between supply and movement of tea prices.

MONTHLY AVERAGES

The average auction prices recorded a positive growth Y-o-Y for the 15 th consecutive month in June 2017. The sharp pick up in average auction prices recorded in September 2016 sustained its momentum, recording over 35% growth YoY in each subsequent month up to end December 2016 and over 45% up to May 2017 driven by low auction volumes. In fact, the March monthly average was 55% higher

than 2016. The Total monthly average for April at Rs 648.52 is the highest on record and Low grown for May at Rs 668.58 is the highest ever elevational average. High grown at Rs 634.84 in the month of March and Mediums at Rs 617.84 in April are the highest for these 2 elevation.

QUARTERLY AVERAGES

1st quarter

Elevation	January to March		
	2017 (Rs. Per kg)	2016 (Rs. Per kg)	Vari +/-
High Grown	619.62	419.45	+200.17
Medium Grown	564.28	378.98	+185.30
Low Grown	614.82	412.71	+202.12
TOTAL	608.03	409.21	+198.82

The first quarter prices recorded a phenomenal increase over the same period last year. High and Low elevations recorded price hikes of over Rs 200/- whilst Mediums gained by Rs 185/- against 2016. The total average for the quarter was approx. Rs 199/- above the corresponding average for the previous year.

2nd quarter

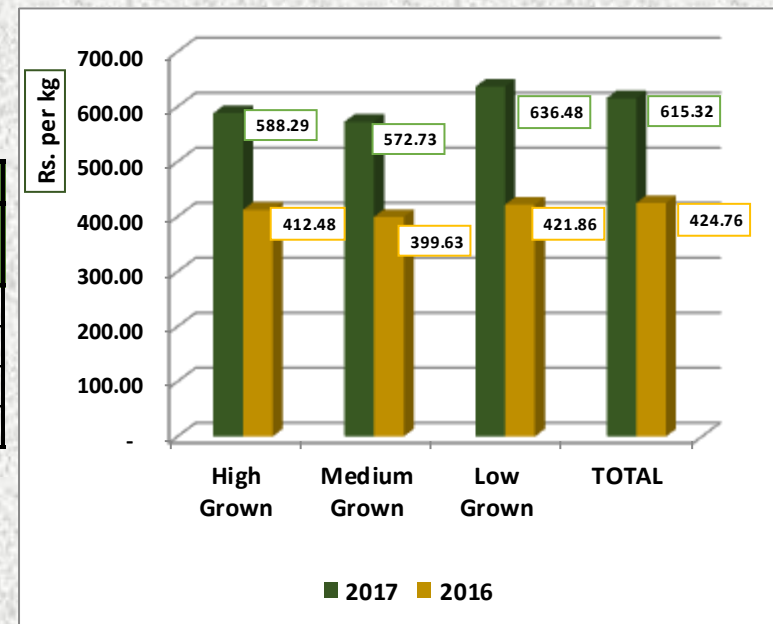
Elevation	April to June		
	2017 (Rs. Per kg)	2016 (Rs. Per kg)	Vari +/-
High Grown	551.93	394.38	+157.55
Medium Grown	563.42	415.23	+148.19
Low Grown	656.63	441.73	+214.90
TOTAL	615.50	446.48	+169.02

High and Medium growths recorded declines of approx. 11% and a rupee respectively against the levels registered at the end of the first quarter. Low growths however had an excellent quarter gaining by 7% over the previous. The 2nd quarter total average advanced by Rs 7/50 from the 1st quarter.

Comparing the 2nd quarter Y-o-Y, High and Medium elevations have gained by a lesser margin than the advances recorded for the first quarter. Low growths improved on its first quarter performance increasing by approx. Rs 215/- against the same quarter last year.

FIRST HALF AVERAGES

Elevation	January to June		
	2017 (Rs. Per kg)	2016 (Rs. Per kg)	Vari +/-
High Grown	588.29	412.48	+175.81
Medium Grown	572.73	399.63	+173.09
Low Grown	636.48	421.86	+214.62
TOTAL	615.32	424.76	+190.57



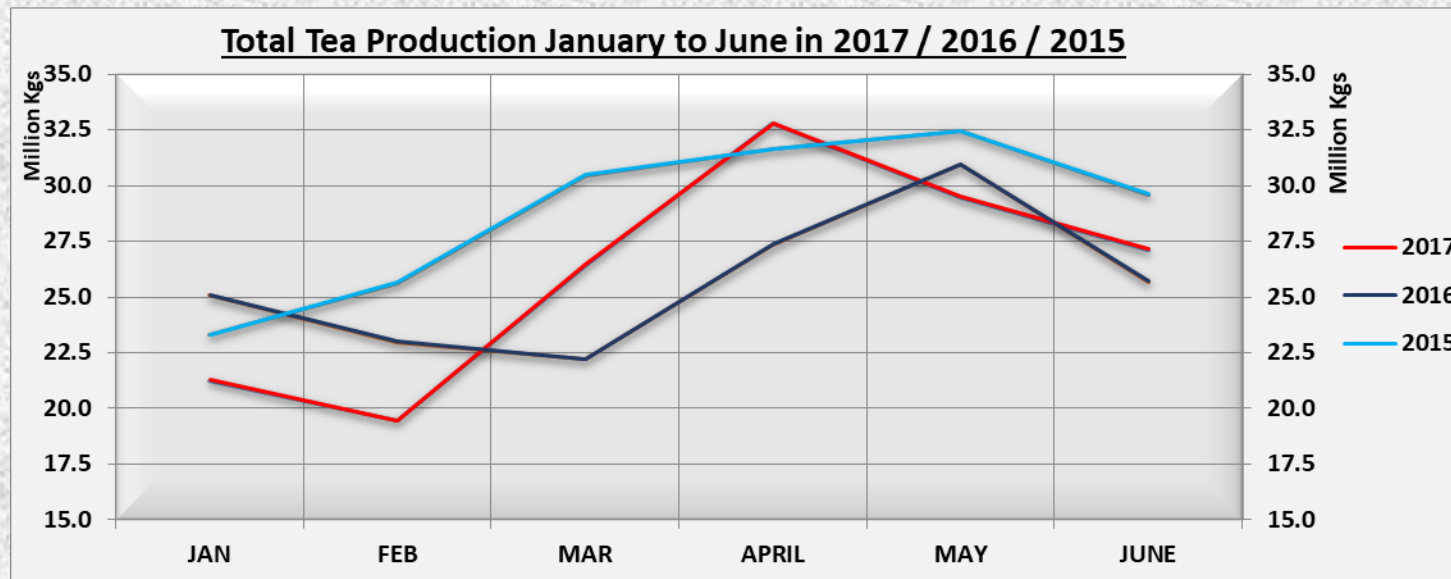
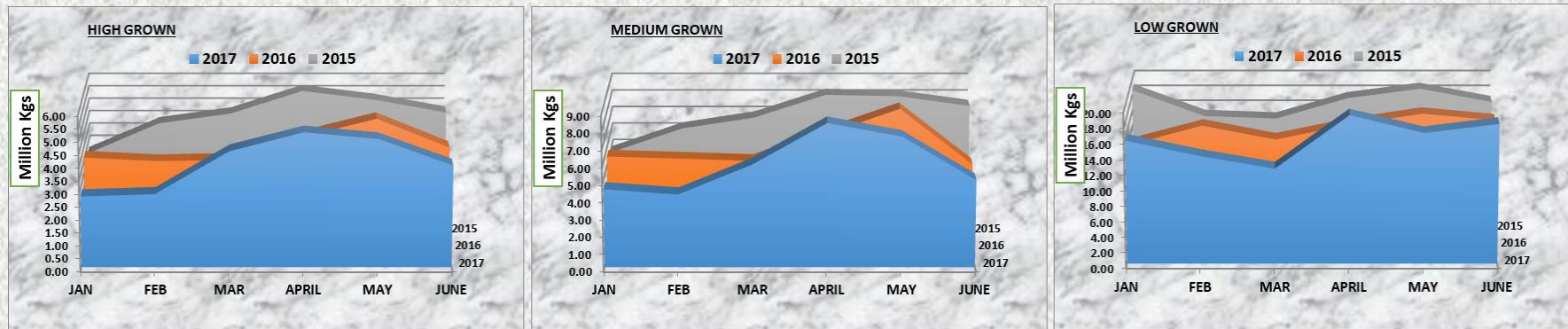
All elevation average for the first half this year was Rs 190.57 higher than last year. High growths increased by approx. Rs 176/- and Mediums by Rs 173/- whilst the Low elevation teas were Rs 214/- above the same half in 2016.

All levels recorded for 1st and 2nd quarters as well as the January - June averages have established new records in the 150 year existence of Ceylon Tea.

In addition to recording prices sharply above those of 2016, another striking feature of tea prices that prevailed throughout most of the first half 2017 is that they were higher in US Dollar terms as well than the previous year. In fact the averages are well over one US dollar which is phenomenal.

PRODUCTION

Monthly



January and February recorded losses of 3.8 and 3.5 M/kgs respectively compared with the same months in 2016. March and April with increased harvests of 4.2 and 5.4 M/kgs wiped out the cumulative deficit, registering a first 4 month surplus of 2.3 M/kgs over 2016. May production was lower to 2016 by approx. 1.5 M/kgs but June reversed this trend gaining by an identical volume over the corresponding month last year, thereby maintaining a half year production surplus of 2.3 M/kgs.

2015 was a good year, the last time Sri Lanka's annual production exceeded 300 M/kilos. As shown in the 4 graphs above, 2017 and 2016 in comparison fared poorly both at the end of the 1st quarter as well as the 2nd. The half year performance of 2017 is 9.5% below that of 2015 whilst the 2016 was even worse recording a deficit of 11%.

Analysing the monthly figures of the 3 years under review, show that only in the month of January that the 2016 did well in all elevations and the total over 2015 and 2017. In the months of February and March, 2015 did much better than 2016 and 2017. Accordingly at the end of the first quarter, 2017 was 12.22 M/kilos behind 2015 and 3.16 behind 2016.

The first quarter crop of High grows at 14.76 Mil. Kilos, Mediums at 10.1 Mil. Kilos, Low grows at 42.28 Mil. Kilos and the total are the lowest since 2009.

1st Quarter

Elevation	JAN			FEB			MAR		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
LOW	13.97	15.92	15.25	12.35	14.09	14.92	15.96	13.40	18.71
HIGH	4.54	5.52	4.85	4.24	5.40	6.29	5.98	5.26	6.94
MEDIUM	2.75	3.64	3.19	2.84	3.50	4.40	4.49	3.55	4.79
TOTAL	21.26	25.08	23.29	19.43	22.99	25.61	26.43	22.21	30.44

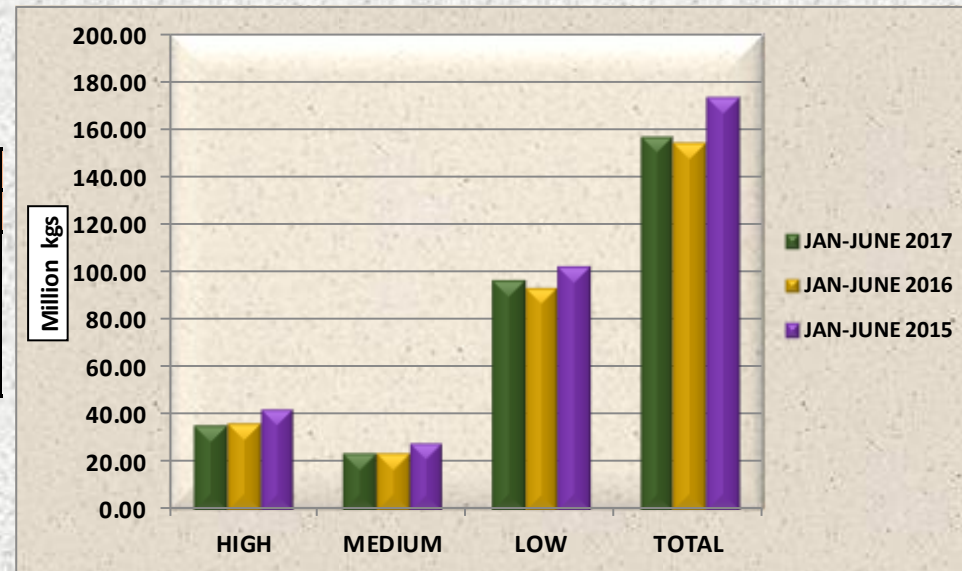
2nd Quarter

Elevation	APRIL			MAY			JUNE		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
LOW	19.21	16.04	17.64	16.92	17.48	18.88	18.10	16.61	17.11
HIGH	8.36	6.85	8.30	7.58	8.32	8.22	5.06	5.04	7.64
MEDIUM	5.22	4.45	5.69	4.96	5.16	5.34	3.94	4.03	4.83
TOTAL	32.79	27.34	31.63	29.46	30.96	32.44	27.10	25.68	29.58

However, with much improved performances in April and June, 2nd quarter 2017 did well to be only 4.30 M/kilos behind 2015 and gaining over 2016 by 5.5 M/kilos. In fact High and Low grown production in April 2017 are higher than 2015 and therefore the total as well.

FIRST HALF PRODUCTION

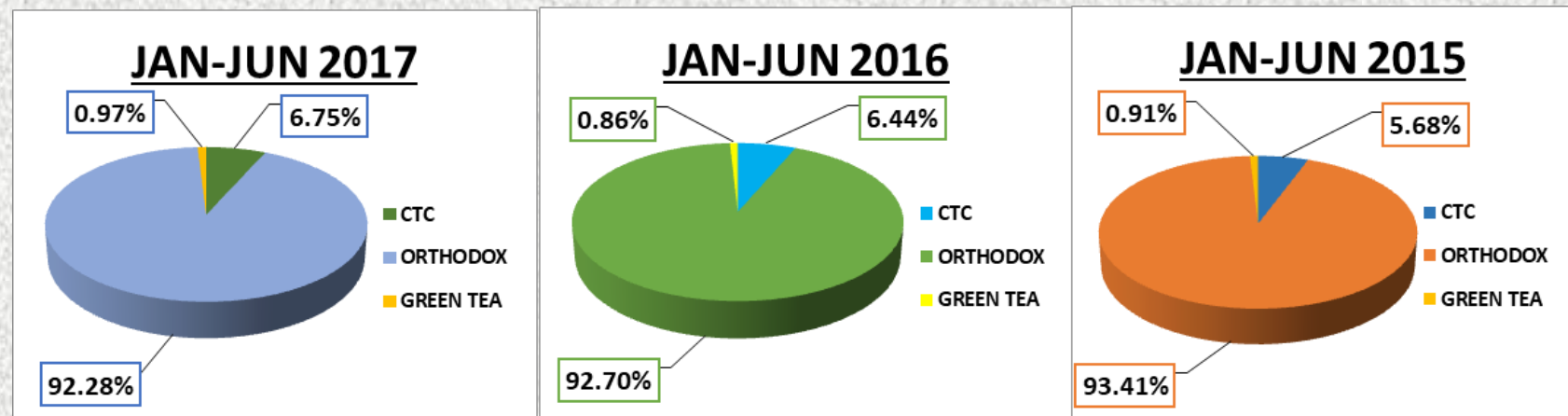
Elevation	JAN-JUNE		
	2017	2016	2015
HIGH	35.76	36.39	42.24
MEDIUM	24.20	24.33	28.24
LOW	96.51	93.54	102.51
TOTAL	156.47	154.26	172.99



The production in the first half of this year was 2.21 Mil. Kilos ahead of last year but 16.52 Mil. Kilos below 2015. Elevation wise 2015 surpassed both the current and the previous years in all three elevations. In High grown, 2015 was 5.85 and 6.48 Mil kilos more than 2016 and 2017 respectively whilst in Mediums the gain was approximately 4 Mil. Kilos against both. Low grown was almost 9 Mil. Kilos more than 2016 and 6 Mil. Kilos over 2017.

Against 2016, the current year was marginally behind for High and Medium elevations but gained by approx. 3 Mil. kilos for Low grown.

CTC Vs ORTHODOX



CTC continues to maintain a National production share of little under 7% whilst Orthodox account for little over 92% for both 2016 & 2017. However, in 2015, CTC was under 6% of total production and Orthodox dominated with approx. 93.4%.

EXPORTS

Monthly export volumes continued lower compared to the corresponding months of 2016 until April. May improved by 3 M/kilos but June was again behind 2016 by 2.8 M/kilos. The half year export quantity was 7.8 M/kilos less than the same period last year. All export categories too showed a similar trend compared to their corresponding quantities of each month last year.

Earnings however, has been much higher in each month compared to the same months of 2016. Consequently the FOB unit price per kilo recorded in each of the first 3 months was more than a US dollar over the previous year and around USD 1.25 – 1.40 higher in the latter months of the period under review.

QUARTERLY EXPORTS

1st quarter

CATEGORY	2017			2016		
	QTY (Kgs.)	VALUE (Rs.)	FOB (Rs./Kg)	QTY (Kgs.)	VALUE (Rs.)	FOB (Rs./Kg)
BULK	28,404,462	19,788,379,910	696.66	31,688,463	16,101,224,985	508.11
TEA PACKETS	33,113,748	23,718,188,280	716.26	34,686,799	18,949,589,017	546.31
TEA BAGS	5,311,716	6,870,291,675	1,293.42	6,576,073	7,977,952,510	1,213.18
INSTANT TEA	526,390	620,547,211	1,178.87	428,652	520,427,136	1,214.10
GREEN TEA	1,051,250	1,667,562,952	1,586.27	1,073,370	1,522,923,348	1,418.82
TOTAL	68,407,566	52,664,970,029	769.87	74,453,357	45,072,116,996	605.37

2nd quarter

CATEGORY	2017			2016		
	QTY (kgs.)	VALUE (Rs.)	FOB (Rs./Kg.)	QTY (Kgs.)	VALUE (Rs.)	FOB (Rs./Kg)
BULK	30,725,298	22,796,360,755	741.94	32,507,960	17,070,115,120	525.10
TEA PACKETS	32,563,795	25,514,540,539	783.52	32,179,425	18,410,343,138	572.11
TEA BAGS	5,585,228	7,283,045,154	1,303.98	5,646,350	6,492,494,337	1,149.86
INSTANT TEA	489,301	595,654,816	1,217.36	648,434	808,353,014	1,246.62
GREEN TEA	917,042	1,588,316,262	1,732.00	1,023,249	1,468,754,807	1,435.38
TOTAL	70,280,664	57,777,917,526	822.10	72,005,418	44,250,060,416	614.54

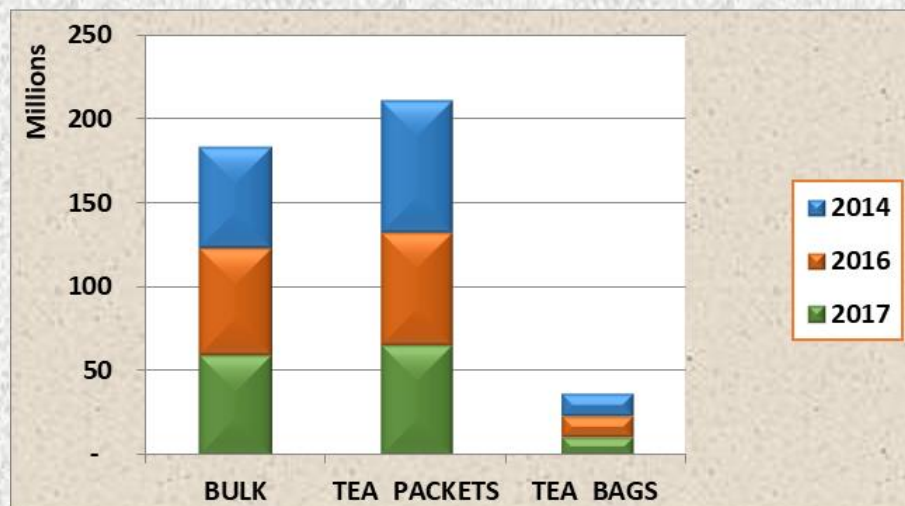
The first quarter total exports dropped by 6 Mil. Kilos or 8% against 2016 whilst the second quarter was much better with a deficit of 1.7 Mil. Kilos or 2.4%. In fact the Packet category registered an increase in exports in the second quarter which is a welcome recovery. On the other hand, instant tea exports have declined both in terms of volume and value and even FOB price wise a much lower unit price has been registered compared to 2016.

Revenue in the first quarter was Rs 7.6 Billion or 17% more than the previous year whilst the second quarter was even better recording a Rs 13.5 Billion or a 30% increase. These resulted in the FOB unit price increasing by over a dollar in the first quarter and by approx. US dollar 1.35 in the second.

Comparing the 2 quarters this year, the total volume exported in the second quarter has shown an increase over the first. Whilst Bulk and Tea bag categories have increased compared to the first quarter, Packets, Instant tea and Greens have been lower.

HALF YEAR EXPORTS – JANUARY / JUNE

CATEGORY	2017			2016			2014		
	QTY (kgs.)	VALUE (Rs.)	FOB (Rs./Kg.)	QTY (Kgs.)	VALUE (Rs.)	FOB (Rs./Kg)	QTY (Kgs.)	VALUE (Rs.)	FOB (Rs./Kg)
BULK	59,129,760	42,584,740,665	720.19	64,196,423	33,171,340,105	516.72	60,563,786	35,631,245,740	588.33
TEA PACKETS	65,677,543	49,232,728,819	749.61	66,866,224	37,359,932,155	558.73	79,017,540	48,320,079,745	611.51
TEA BAGS	10,896,944	14,153,336,829	1,298.83	12,222,423	14,470,446,847	1,183.93	14,133,877	15,310,687,346	1083.26
INSTANT TEA	1,015,691	1,216,202,027	1,197.41	1,077,086	1,328,780,150	1,233.68	986,179	1,127,360,905	1143.16
GREEN TEA	1,968,292	3,255,879,214	1,654.16	2,096,619	2,991,678,155	1,426.91	2,731,090	3,683,570,643	1348.75
TOTAL	138,688,230	110,442,887,554	796.34	146,458,775	89,322,177,412	609.88	157,432,472	104,072,944,379	661.06



All categories recorded lower volumes compared to 2016. However the increase in Packetted tea category over the Bulk exports by 6.6 M/kilos is a healthy recovery considering the difference between these 2 categories last year was only 2.7 M/kilos. This could be attributed to the financial stability returning to some of the large volume packetted tea importing destinations which were compelled to import more Bulk teas than packaged items in 2015 & 2016 due to the weakening buying power.

The unit FOB prices have increased substantially over the corresponding period last year which is in line with higher auction prices. The first quarter total FOB price per kilo was Rs 164.50 more than 2016 whilst at the end of the half way mark it had expanded to Rs 186.46 (Rs 609.88 to 796.34). All categories have improved on their 2016 performance except Instant Tea exports which has declined by approx. Rs 36.27 per kilo.

Something that struck a discordant note is the unit price difference between Bulk and Packetted teas which have shrunk to Rs 29.42 against Rs 42.01 in 2016. This is as a result of the lower FOB rate at which substantial volumes of packetted teas are shipped to destinations such as Iraq drawing down 'big time' on the high value destinations.

2014 was the record year for Sri Lanka's Tea exports. Comparing 2017 performance with that year shows an almost 19 Million kilo shortfall. However, the value is Rs 6 Billion higher than in 2014 signifying the impact of very high tea prices. The unit FOB price at Rs 796.34 is a whopping Rs 135/- more than the level registered 3 years ago.

EXPORT DESTINATIONS

Global tea demand for ‘Ceylon tea’ has been subdued over the past 3 years with global tea imports contracting for a third consecutive year. The sharpest fall Year on Year of 16.6% was recorded for 2016. Sri Lanka’s tea exports of US \$ 1.27 Billion in 2016 was a 5.3% drop year-on-year, the second consecutive year of negative exports. The Macro economic instabilities and lower oil prices in key export markets aggravated by Sri Lanka’s falling supplies leading to very high prices were the main causes for this trend.

1st Quarter (January - March) - In million kg

Country		2017	2016	Quantity Verience	Total Exports %	
					2017	2016
1	Russia	8.40	9.00	-0.60	12.28	12.09
2	Iraq	7.44	10.82	-3.38	10.88	14.53
3	Turkey	7.18	4.61	2.57	10.50	6.19
4	Iran	6.03	7.40	-1.37	8.81	9.94
5	UAE	3.86	5.65	-1.79	5.64	7.59
6	Libya	3.77	1.43	2.34	5.51	1.92
7	Azerbaijan	2.61	2.17	0.44	3.82	2.91
8	Syria	2.04	2.94	-0.90	2.98	3.95
9	Chile	2.02	1.10	0.92	2.95	1.48
10	Japan	1.92	1.90	0.02	2.81	2.55
Total Top 10 Exports		45.27	47.03	-1.76	66.17	63.16
Total Exports		68.41	74.45	-6.04	100.00	100.00

Russia continues to hold the top position in the first 3 months of this year although the volume of exports were approx. 600,000 kilos less than the same period in 2016. Despite holding the second spot, Iraq has considerably declined compared to last year with exports down by 3.4 Million kilos. Turkey on the other hand has improved by 2.5 million kilos, following the relaxation of border controls and dwindling inventories. Iran has fallen back to fourth slot and volume too has come down by 1.4 million kilos YoY. Among the other

destinations in the ‘top 10’, UAE and Syria have recorded negative growths whilst Libya has significantly improved on 2016 by 2.3 million kilos. The top 10 countries account for approx. 66% of the total exports of Sri Lanka.

1st Half (January - June) - In million kg

	Country	2017	2016	Quantity Variance	Total Exports %	
					2017	2016
1	Turkey	17.05	11.94	5.11	12.29	8.15
2	Russia	16.70	18.04	-1.34	12.04	12.32
3	Iraq	15.69	18.47	-2.78	11.31	12.61
4	Iran	12.76	16.66	-3.9	9.20	11.38
5	UAE	7.99	11.01	-3.02	5.76	7.52
6	Libya	6.31	3.59	2.72	4.55	2.45
7	Azerbaijan	5.84	4.73	1.11	4.21	3.23
8	China	4.09	3.65	0.44	2.95	2.49
9	Japan	4.04	3.98	0.06	2.91	2.72
10	Syria	3.43	5.94	-2.51	2.47	4.06
11	Chile	3.42	2.81	0.61	2.47	1.92
12	Germany	2.72	3.76	-1.04	1.96	2.57
13	USA	2.59	2.5	0.09	1.87	1.71
14	Jordan	2.53	2.32	0.21	1.82	1.58
15	Hong Kong	2.37	2.36	0.01	1.71	1.61
16	Lebanon	2.31	1.62	0.69	1.67	1.11
17	Taiwan	2.29	1.52	0.77	1.65	1.04
18	Saudi Arabia	2.05	2.33	-0.28	1.48	1.59
19	Ukraine	1.96	2.35	-0.39	1.41	1.60
20	Australia	1.62	1.55	0.07	1.17	1.06
Total Top 20 Exports		117.86	121.21	-3.35	84.99	82.77
Total Exports		138.68	146.45	-7.77	100.00	100.00

FIRST HALF

Turkey has emerged as the leading destination at the end of the half way mark this year with exports increasing by 43% or approx. 5 Million kilos. With a volume of 17 Million kilos Turkey accounts for 12.3% of total off take. Russia, Iraq, Iran and UAE occupy the next 4 positions but their individual performances have been below 2016 by 1.3, 2.8, 3.9 & 3 Million kilos respectively. Apart from these, most of the other top 20 export destinations have shown a considerable improvement in 2017 over 2016 except Syria (-2.5 M/kilos), Germany (-1.0 M/kilos), Saudi Arabia and Ukraine (dropping marginally). These 20 countries have taken up almost 85% of all Sri Lanka exports for the period under review.

Russia is the leading bulk destination with 13 million kilos whilst Iraq continues to be the highest packet importing nation with 15.4 million kilos closely followed by Turkey at 12 million kilos. Jordan with 1.2 million kilos and Australia with 1.1 million kilos are the largest tea bag destinations for 'Ceylon tea'.

It is heartening to see China increasing their off take and moving in to No. 8 position in the list of export destinations. This destination has made rapid progress since 2012 moving from 21st position to where she is today and it augurs well for Sri Lanka's tea industry in its quest to enter new markets.

OUTLOOK FOR THE 2ND HALF OF 2017

Sri Lanka's share of the global supplies have fallen from 7% to about 5% in recent times but still remains the largest producer of orthodox tea. Raising the export volumes beyond present levels is severely restricted by rigidities on the supply side. Continuous shortfall in availability have also made auction prices to grow at double digit levels hurting the export competitiveness in already weak export markets. The ability to increase production at least back to 330 – 340 million kilo levels will depend to a great extent on favourable climatic conditions as well as reversing government policy banning the use of certain weedicides.

Production this year will in all probability go above 300 Million kilos considering that the crop so far has been higher than 2016 though marginally and every likelihood that second half should make higher gains in view of improved rainfall in plantations since end May.

This however will not negatively impact tea prices for the rest of the year as the Middle East and Russia as well as most CIS countries (former Soviet states) who are regular buyers of “Ceylon Tea” will step up purchases to cover shortfalls of the previous year. Low grown teas as the main requirement for these destinations, will benefit immensely as we move in to the final half of 2017.

What will drive these countries to intensify demand are the slowly increasing global oil prices and the relative stability of the Russian rouble which has gained 38% against the US dollar (from Jan. 2016 level of USD/RUB 82.5 to June 2017 little below USD /RUB 60) over the past 18 months coupled with the weakening SL rupee.

A peek in to the 3rd quarter confirms this forecast as low grown teas have been mostly unaffected with stable prices through July and August. The other 2 elevations have also recorded decent price levels through this period and as ‘winter’ buying steps up, good price levels are likely to prevail at least until November. The forth coming Uva Season will ensure high prices for teas with seasonal flare coming up for auction from this region during August and September.

All in all, 2017 should go down in history as one of ‘High Price’ years.

Be that as it may, Sri Lanka’s tea industry needs to evolve and transform to be resilient and strong amidst rapid changes and market headwinds that are taking place globally. Consumption habits are evolving at a rapid pace and tea has already gone beyond being a traditional beverage to a whole host of new formats like health and wellness drinks, fruit and spice flavoured juices, bubble teas, instant teas, in food pairings, etc.

These changing preferences increasingly demand for greater innovation in the production and marketing sphere. The time has come to make strategic decisions to take Sri Lanka to the next level and what better time than now as ‘Ceylon Tea’ celebrates 150 years.

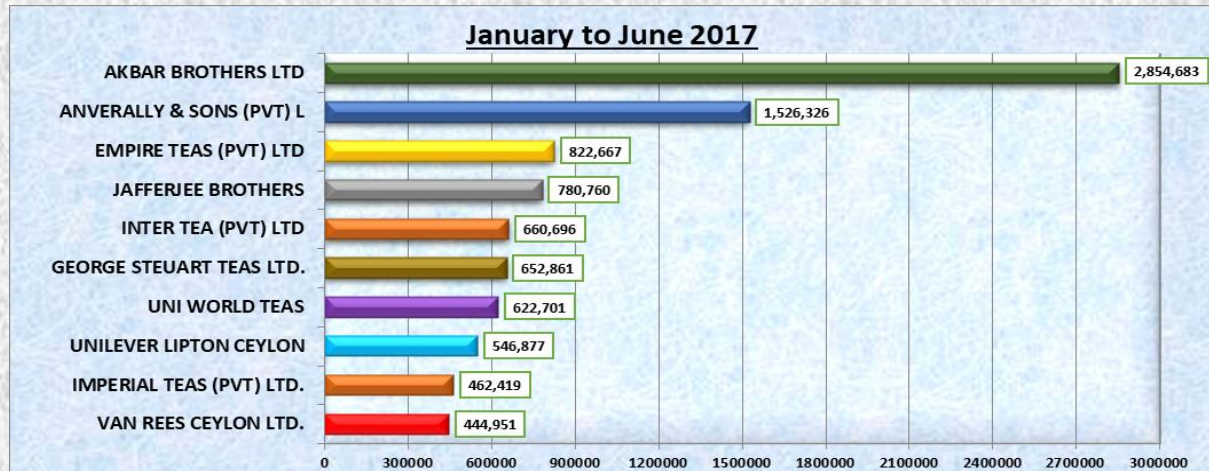
150TH ANNIVERSARY CELEBRATION

Grand events are planned in July and August to mark the 150th anniversary of “CEYLON TEA”. Among the events planned for July are the first ever Global tea party followed by the issuing of a 10 rupee coin and stamps to mark the anniversary. The Colombo International Tea Convention is scheduled for 9th – 11th August studded with an excellent line up of speakers which will be the culmination of the celebrations. A large gathering of participants including international tea buyers and dignitaries are expected to attend.

ACKNOWLEDGEMENTS

MPBL take this opportunity to thank all clients for entrusting their produce for sale as well as all those who patronized the company catalogue throughout the first 6 months of this year.

MPBL TOP 10 BUYER PROFILE



MPBL TOP 10 SELLERS





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