



2017 2nd Half TEA REVIEW



MERCANTILE PRODUCE BROKERS (PVT) LTD



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TEA REVIEW - SECOND HALF 2017

The 150th year of Sri Lanka's Tea industry will go down in the annals of history as a year of unprecedented tea prices breaking a large number of records in the process.

Celebrations connected with the sesquicentennial year of Ceylon Tea peaked with the grand tea convention held over 3 days amidst much pomp and pageantry. Very useful and thought provoking presentations were made by the galaxy of renowned experts in tea and other fields from which the industry can take the cue to face the challenges that lie ahead.

Tea prices continued to decline from where they ended the first half until July. There after prices began to move up to peak at record levels in October. Since then, it has been on a decline. However, the levels were better than at the end of June for High, Medium and the total averages, Low grown being the only exception.

Production too saw an improvement month on month against 2016 but November and December harvests were lower than the previous year. In fact they are lowest for the said months since 2011.

2017 HIGHLIGHTS

HIGHEST EVER TEA PRICES

PRODUCTION 5% HIGHER TO 2016

EXPORT VOLUME NO SIGNIFICANT CHANGE

EXPORT EARNINGS UP RS. 48.6 BILLION, NETTS USD 1.5 Bn

KENYAN 2017 PRODUCTION DOWN 33 M/KILOS

ECONOMY

For the first time in 5 years, the trade deficit exceeded USD 1 Bn in a month in December. Imports were little above USD 2 Bn whilst exports went over USD 1 Bn for the month. This was the 5th occasion that exports crossed this milestone during the year 2017.

2017 trade gap of USD 9.6 Bn is the country's highest. This is in spite of record annual exports of USD 11.4 Bn. Due to increased imports which reached a high of USD 21 Bn largely dominated by fuel, iron and steel, rice and other food and beverages, vehicles and gold, the impressive export performance was not sufficient to reduce the trade deficit.

Textile and garment exports held the lion's share of exports whilst Tea with a renewed performance particularly in terms of record high prices also contributed to the high export earnings.

Imports exceeding exports has been a regular feature of Sri Lanka's trade balance. In the last 67 years since 1950 there have been only 5 occasions where the country enjoyed a trade surplus, the last being 1977. This highlights Sri Lanka's severe dependency on imports.

Balance of payment however has been on a plus in many occasions due to services, remittances and capital inflows. Significant growth in Worker remittances has been able to off set 70% of the trade deficit in recent years but last year a drop was evident on account of the upheaval in the Middle east.

Reducing the trade deficit is critically important to improve the balance of payment and strengthen the foreign reserve. Towards this, containing imports is crucial. Accordingly, steps should be taken to design Fiscal and monetary policies in such a way to reduce imports.

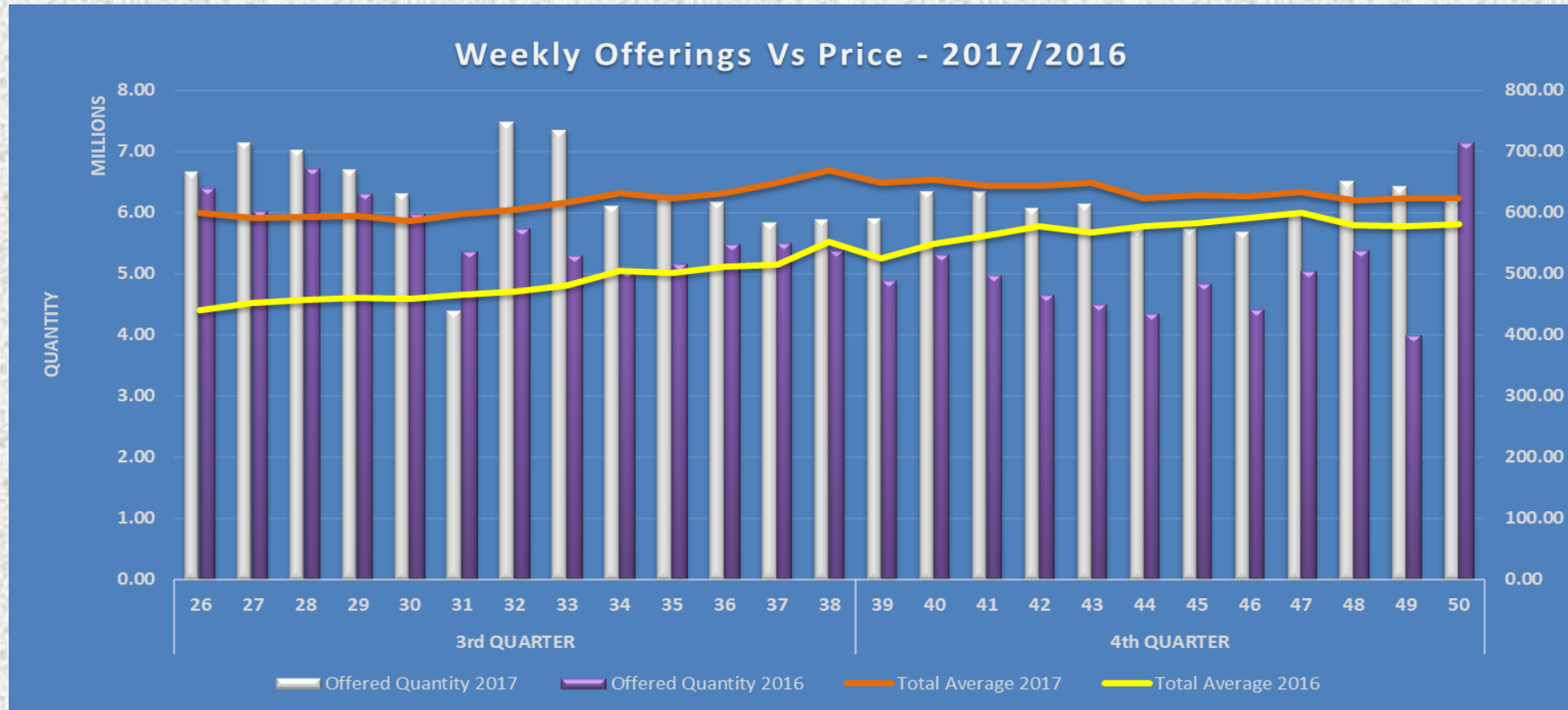
The GDP growth at 3.1%, was lower than the previous year's 4.5% which does not augur well for the economy.

GLOBAL ECONOMY

The global economic growth was 3% in 2017 and is expected to remain steady in the new year. Whilst advanced economies are projected to grow 2.2%, the developing nations are expected to strengthen 4.5% according to World Bank sources. With prices hitting a 30 month high in December 2017 and a positive global economic growth projected for 2018, higher demand is expected for crude oil..

WEEKLY OFFERINGS

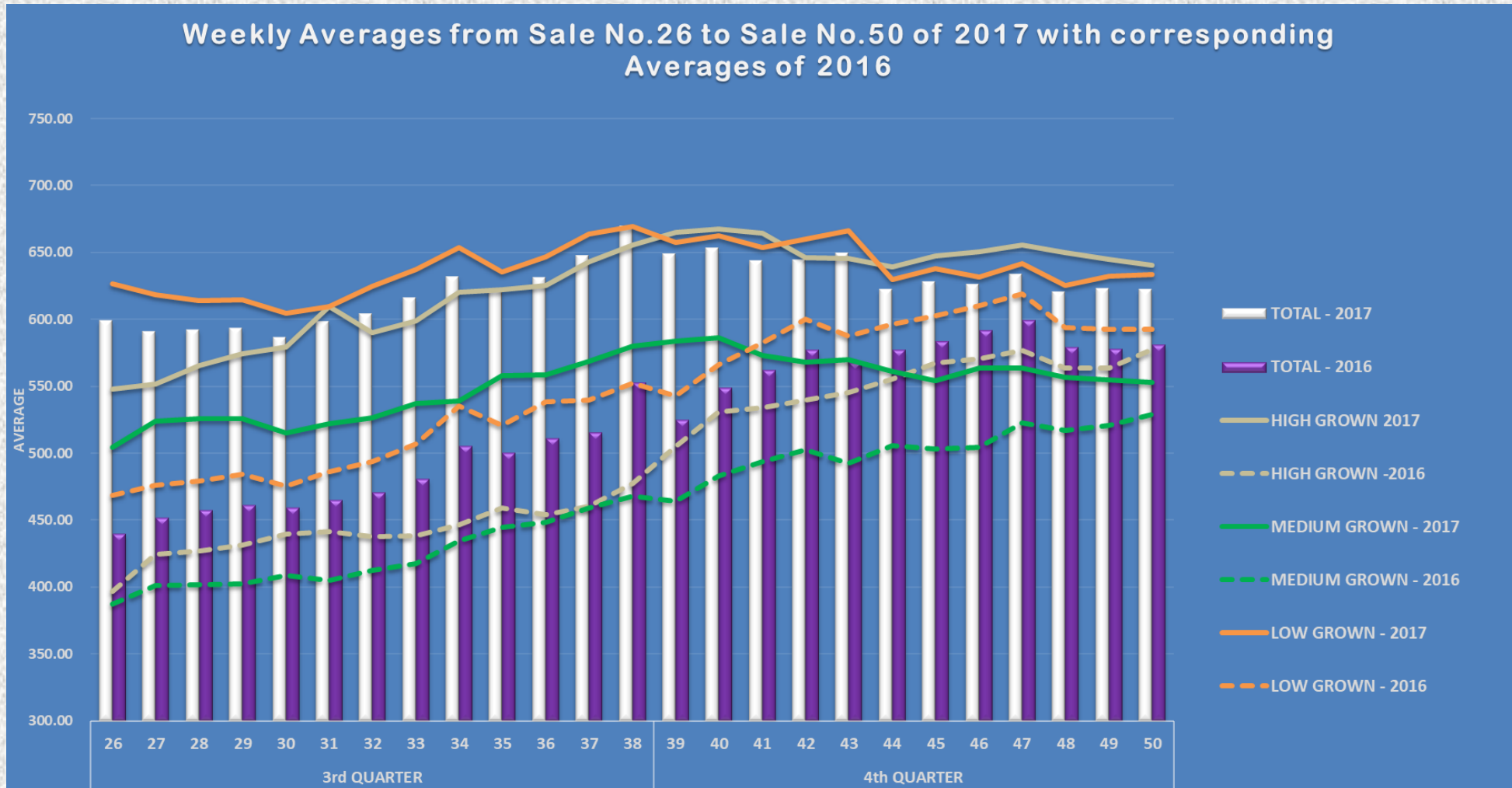
Throughout the 2nd half of 2017 weekly auction offerings have been higher than the corresponding sales in 2016 barring 2, i.e. Sales nos 31 & 50. Sale no. 31 was restricted on account of the Tea Convention whilst Sale no.50 is as a result of lower crops in November and December.



Demand & Supply usually determines tea prices. In the 2nd half of 2017 however, prices kept escalating in spite of weekly offerings being higher than the corresponding sales of 2016. This was particularly true during the 3rd quarter where even with over 7 million kilos at 2 successive auctions and others averaging 6, tea prices advanced week on week. The 4th quarter recorded stable prices in the back of reasonably decent auction offerings.

PRICES

Weekly



Total auction average commenced the 2nd half 2017 at Rs.599.18, approximately Rs 13/- above where it ended the first half. Prices displayed an “up & down” trend until sale No: 31 after which it moved upto Rs.631.51 at sale No: 34. A brief dip followed thereafter and once again climbed to reach a 2nd half high of Rs.669.23 at sale No: 38. This was followed by a zig zag downward trend reaching a low of Rs.622.34 at sale no: 44. From then on, a more or less flat trend prevailed till the year end closing 2017 at an average price of Rs.622.51. The price concertina between the weekly averages YoY which was at Rs 160 at the start of the second half steadily dropped and after Sale no.40 declined below Rs 100. The final auction average was only Rs 42/- more than the corresponding auction in 2016.

Scrutinizing the three elevational performances reveal an up swing for high grown reaching a peak of Rs.667.30 at sale no:40 after commencing the 2nd half of the year at Rs.547.77. A mini decline followed and another climb was evident from sale no:44 reaching Rs.655.72 at Sale no.47. From then on till the end of the year, high grown prices slipped to close at Rs.640.39. The main reasons for the decline were the slowing down of buying by Japan following the detection of excessive MRLs of MCPA and Hexaconazole in Ceylon tea and Russia at the very last sale pulling out due to the ‘beetle’ issue.

Nevertheless, high grown fared much better particularly since sale no:39 (start of the 4th quarter) to be ahead of the low grown average in as many as 10 auctions out of the last 12 sales for 2017, a rare achievement in recent years. The gap between this elevation’s weekly averages between 2017 & 2016 which was around Rs 150 at the start of the second half widened to as much as Rs 182/- towards the end of the 3rd quarter. However, by Sale no.44 and there onwards began to shrink below Rs 100/- and at the last auction of the year had reduced to Rs 63/-.

Medium grown which commenced the period under review at Rs.504.24 moved up within moderate levels but after a dip at sale no:30 advanced sharply to Rs.586.53 by sale no:40. Thereafter tea auction average for this elevation began to slip ending the year at Rs.552.65. The difference in the elevation average for 2017 and 2016 which was around Rs 110 – 120 fell below Rs 100 from Sale no: 41 and at the closing auction it had narrowed to a mere Rs 24/- apart.

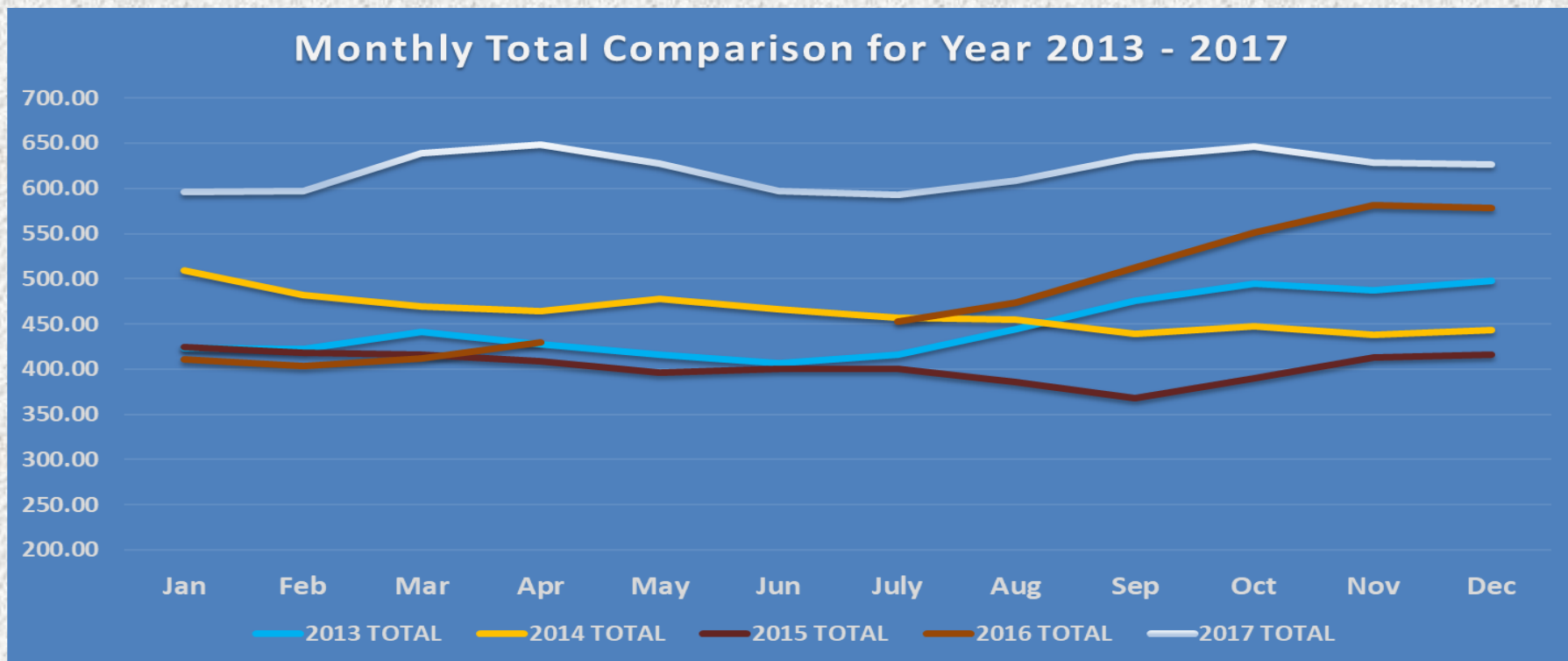
Low grown which commanded a price of Rs.626.41 at sale no:26 began to decline until sale no:30 then reversed the trend to reach Rs.669.23 at sale no:38. After a minor price correction, moved up to Rs.666.47 at sale no:43. A steep decline to Rs.630 level at sale no:44 was followed by more flatish price level in the remaining auctions of the year. The low grown average at sale no:50 was Rs.633.82. The weekly price differential between 2017 & 2016 which was as high as Rs 158/ at the start of the period under review, i.e. 2nd half 2017, narrowed somewhat but maintained over Rs 100 until Sale no.39. Thereafter the gap fell below the three figures to end the year with only approx. Rs 40/- ahead of the previous year.

Monthly

The total average in the first 3 months of the second half 2017 were Rs 140, 135 & 130 respectively above the same months of 2016. It will be recalled that the present steep price hike for 'Ceylon' tea began from October 2016. Consequently the price differential narrowed considerably from October to December, dropping below Rs 100/- and even lower in the final month.

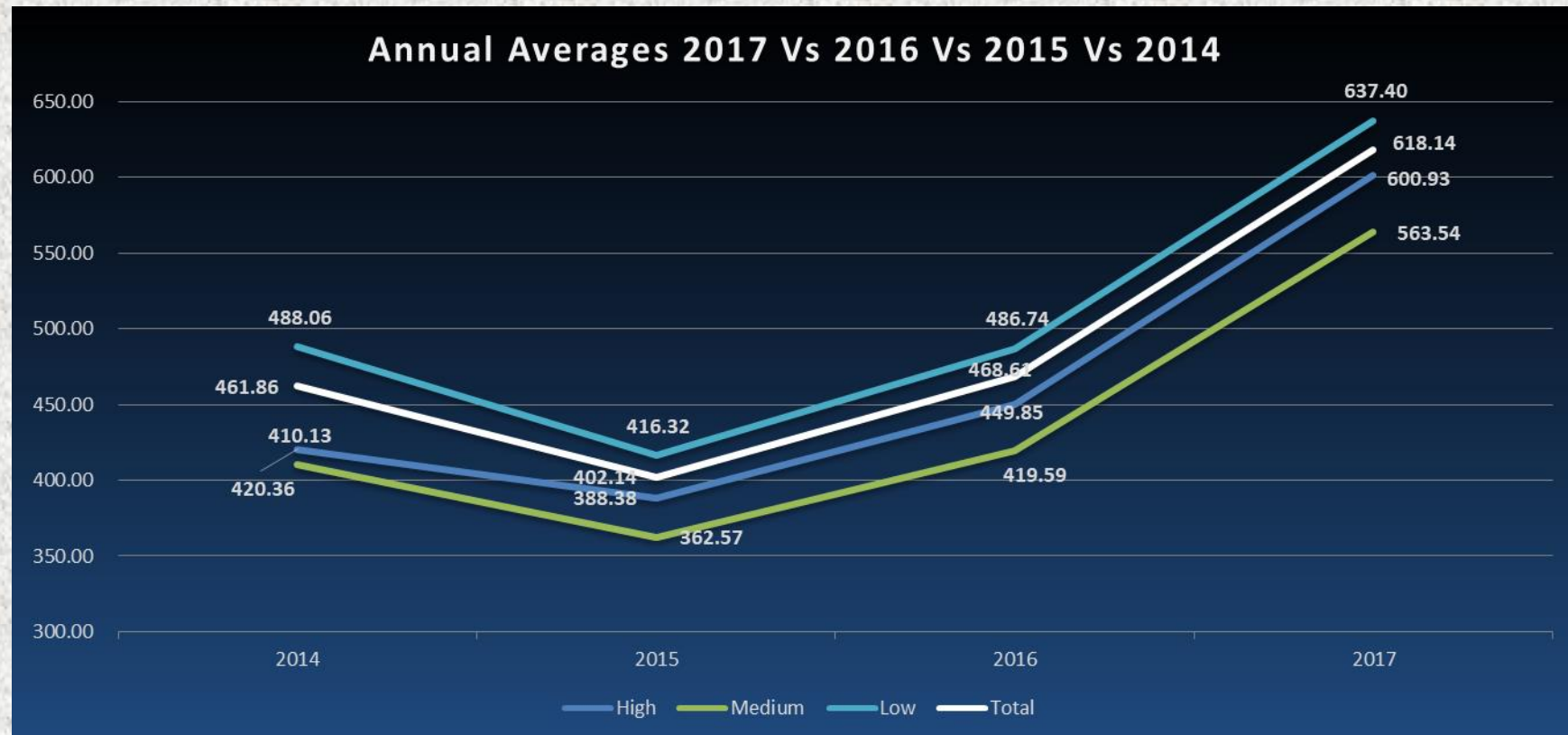
The pattern for High and Medium grown elevations was one of going higher in the first 3 months of the period under review and then dropping in the last 3 months. Low grows followed pretty much the same trend as the total average as it is responsible for almost two thirds of the teas offered in each auction.

A comparison of the National average for each month for the last 5 years as shown in the graph below reflects 2017 at an unassailable level. The early 2 months of 2014 and the last 2 months of 2016 could be considered as the only few months that came close to the corresponding months of 2017. However, it must be remembered that 2014 levels were based on an exchange rate of approximate Rs 135/- where as the 2017 levels were based on approx. Rs 151. Although in rupee terms the producer has a lot to gloat about, in real terms the scenario is not that impressive.



ANNUAL AVERAGES - 2017 vs 2016 vs 2015

	High	Medium	Low	Total
2014	420.36	410.13	488.06	461.86
2015	388.38	362.57	416.32	402.14
2016	449.85	419.59	486.74	468.61
2017	600.93	563.54	637.40	618.14

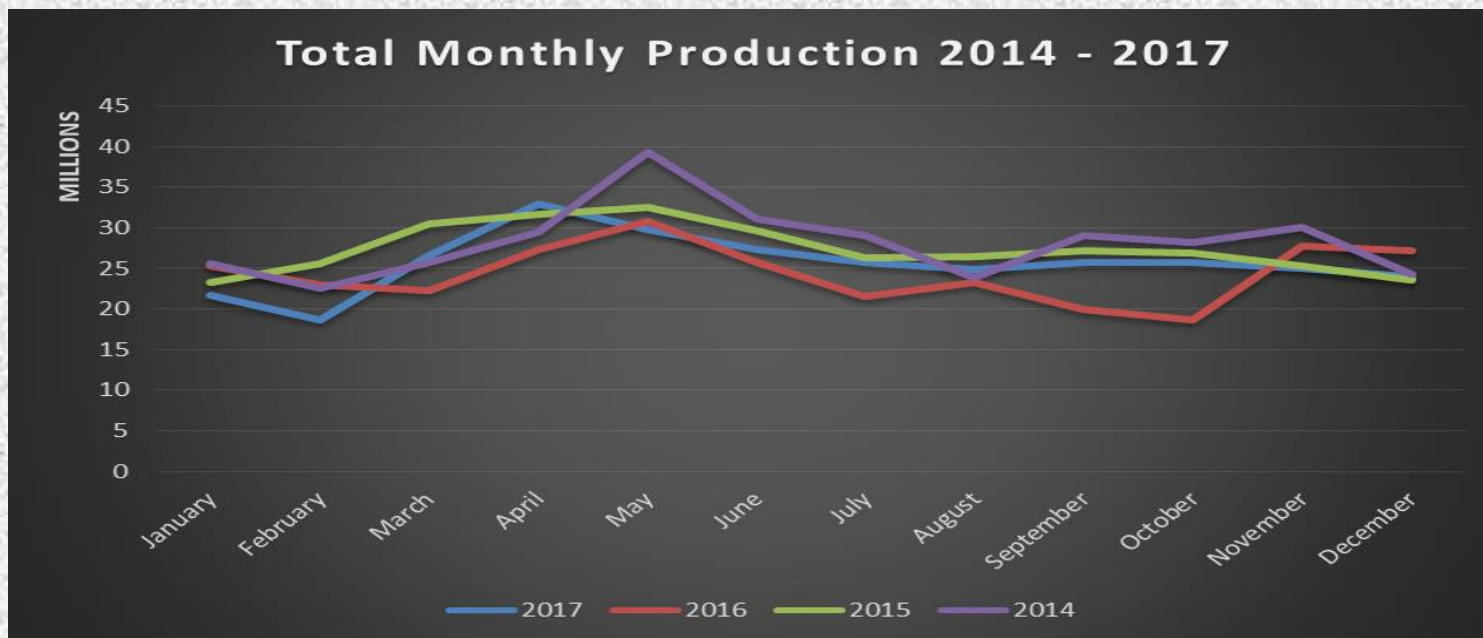


PRODUCTION

Monthly

Crops continued to do better than 2016 month on month until October. However, November and December recorded deficits in comparison to the corresponding months of the previous year. All elevations were responsible for the increases in the first 4 months of the period under review with low grown in particular contributing largely. The harvests of 24.8 Million kilos in November and 23.5 Million kilos in December were not only lower against the relatively high corresponding months of 2016, they were in fact among the lowest recorded when analyzing monthly figures since 2011.

Whilst High grown elevation ranged between a monthly harvest of 4.2 & 5.2 Million kilos during the last 6 months of 2017, Low grown consistently maintained a plus 17 Million kilos from July to October and then declining in the last 2 months. In comparison, 2016 Low grown were around 13 to 16 Million kilos in the months of July to October, improving to 17 Million kilos only in the last 2 months. High grown too from 3 – 3.5 Million kilos in the first 4 months improved to 6 Million kilos by the last 2 months of that year.



3RD QUARTER

	2017	2016	2015
HIGH	13,890,332	12,579,825	15,701,233
MEDIUM	10,739,263	9,510,315	11,422,416
LOW	51,677,727	42,631,945	52,831,080
TOTAL	76,307,322	64,722,085	79,954,729

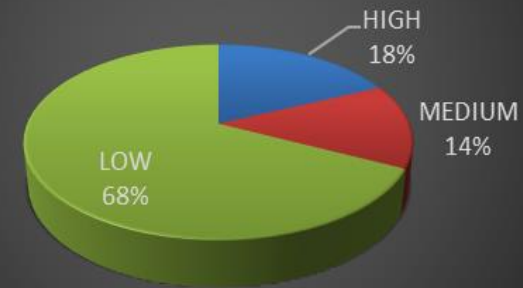
The quarter performance shows a significant improvement of 24% compared to the same period 2016. However, it is below the level harvested in 2015 falling short by 3.6 Million kilos.

4TH QUARTER

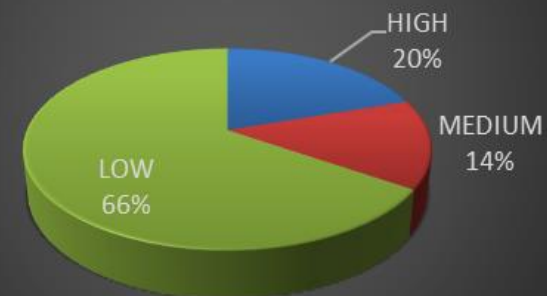
	2017	2016	2015
HIGH	14,894,716	15,454,694	17,484,504
MEDIUM	10,708,885	10,670,194	11,306,245
LOW	49,030,550	47,472,345	47,037,045
TOTAL	74,634,151	73,597,233	75,827,794

In the final quarter, 2015 still remains the highest at 75.8 Million kilos but the production of 2016 and 2017 have been not too far behind. Elevation wise Low grows have performed well in the year under review recording the highest quarter production in the last 3 years harvesting 2 Million kilos more than even in 2015. High grows have fallen behind recording the lowest for the 3 years at 14.9 Million kilos compared with a high of 17.5 in 2015.

2017 3rd Quarter Crop Elevation wise



2017 4th Quarter Crop Elevation wise



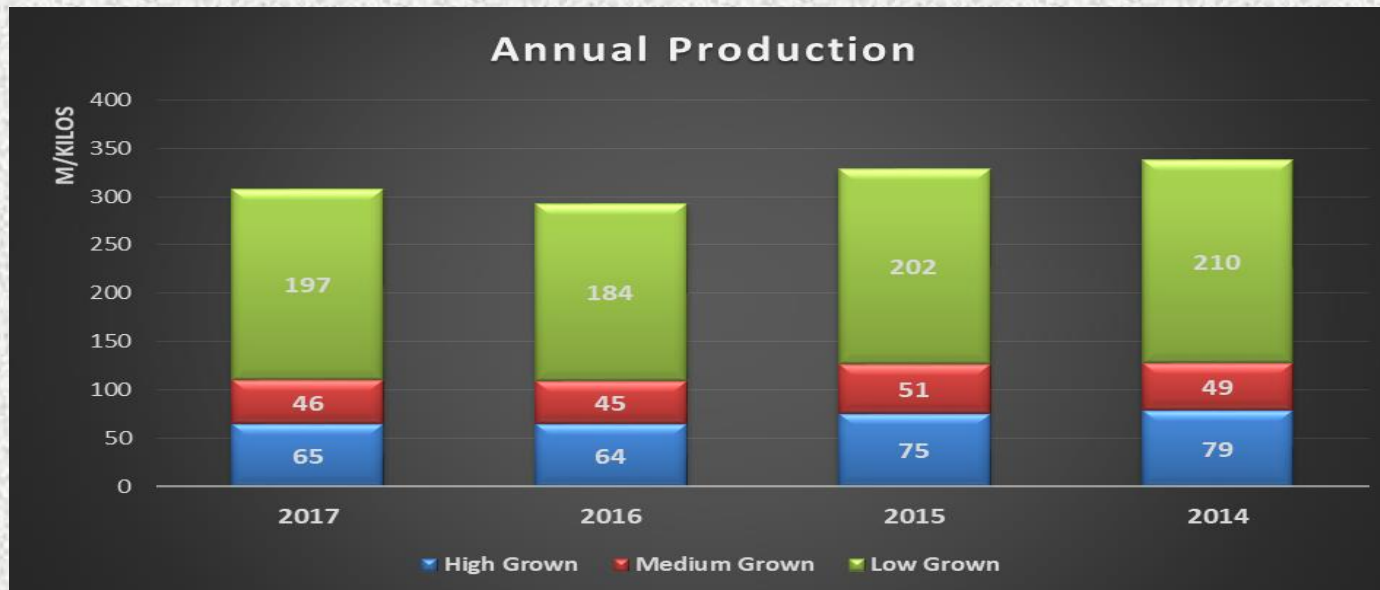
ANNUAL PRODUCTION

As reported elsewhere, more rainfall this year compared to 2016 and the resultant conducive cropping conditions helped improve Sri Lanka's tea production and go over the 300 Million kilo mark once again.

ANNUAL PRODUCTION				
	2017	2016	2015	2014
High Grown	64,643,597	64,424,744	75,426,286	78,874,199
Medium Grown	45,654,592	44,510,198	50,965,838	49,205,259
Low Grown	197,421,616	183,638,644	202,378,942	209,952,124
TOTAL	307,719,805	292,573,586	328,771,066	338,031,582

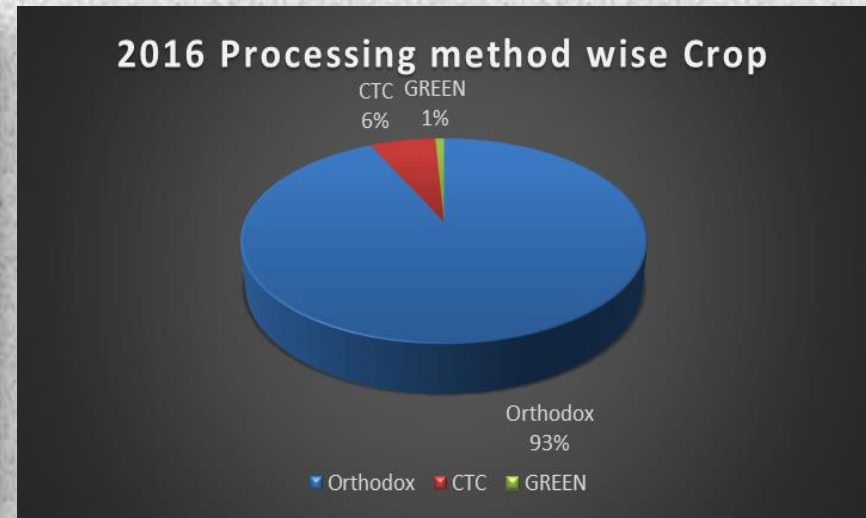
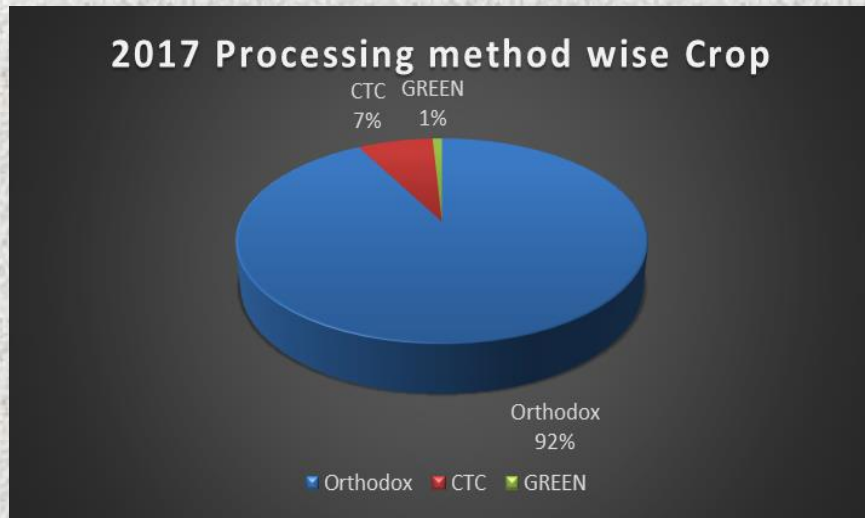
Nevertheless, the 307 Million kilos harvested last year recording a 5.5% increase over 2016, is in no way satisfactory when considering the previous 'highs' of 340, 338 & 328 Million kilos achieved in 2013, 2014 & 2015 respectively.

April recorded the highest monthly crop of 32 Million kilos towards which the low grown elevation contributed 19 Million kilos. High grown too helped with 8 Million kilos in that month.



CTC vs Black Orthodox vs Green Tea Production

CTC production increased its share to 7% of the National production in 2017 whilst the black Orthodox declined to 92% as shown in the following chart.



EXPORTS

Monthly exports ranged between 23.6 and 26.7 Million kilos, with July being the highest and November recording the lowest. The unit FOB price per kilo was between Rs 810 and 824. July and November recorded the highest FOBs among the last 6 months of the year.

3RD QUARTER						
	2017			2016		
	QUANTITY	VALUE	FOB/KG	QUANTITY	VALUE	FOB/KG
	(Kgs.)	(Rs.)		(Kgs.)	(Rs.)	
BULK	34,379,014	25,126,944,588	730.88	32,860,654	17,899,100,768	544.70
PACKETS	35,228,135	27,388,018,538	777.45	36,468,509	21,710,432,030	595.32
TEA BAGS	5,528,518	7,523,515,723	1360.86	5,558,918	6,530,054,271	1174.70
INSTANT	628,844	824,573,794	1311.25	346,482	423,425,720	1222.07
GREEN	1,368,987	2,164,006,395	1580.73	1,063,421	1,702,772,653	1601.22
TOTAL	77,133,498	63,027,059,038	817.12	76,297,984	48,265,785,442	632.60

Volume exported during this quarter was approx. 0.8 million kilos more than 2016. Bulk category exceeded the previous year whilst tea in packets were lower. Tea Bags were almost the same as 2016 whilst instant tea nearly doubled. Green tea category too increased by 300,000 kilos. Export Revenue for the quarter was Rs 15 billion higher. Apart from Green tea, all categories recorded much higher unit FOB rates.

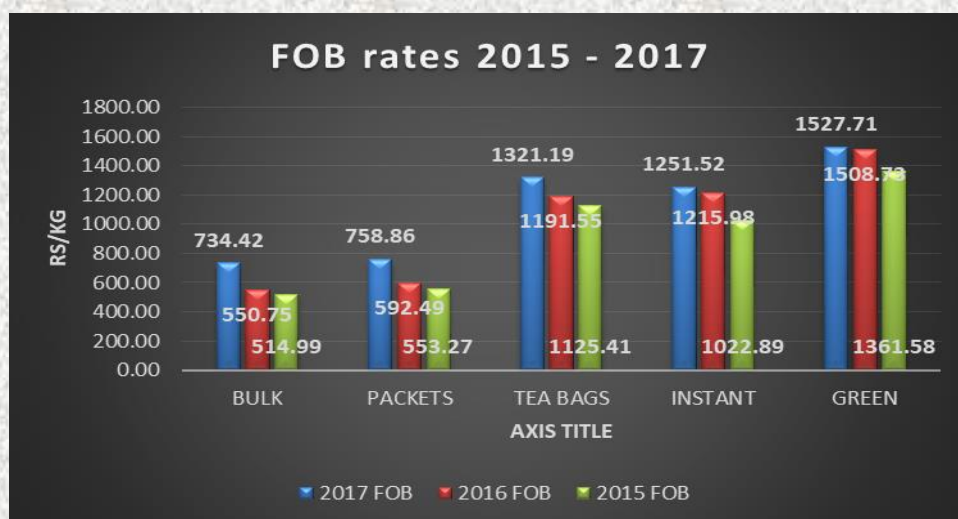
4TH QUARTER						
	2017			2016		
	QUANTITY	VALUE	FOB/KG	QUANTITY	VALUE	FOB/KG
	(Kgs.)	(Rs.)		(Kgs.)	(Rs.)	
BULK	32,120,492	24,552,892,090	764.40	28,142,435	17,882,879,553	635.44
PACKETS	33,603,124	25,452,178,430	757.43	30,989,599	20,515,764,005	662.02
TEA BAGS	5,275,914	6,994,728,884	1325.78	5,229,684	6,418,268,786	1227.28
INSTANT	476,861	614,184,824	1287.97	587,285	692,950,906	1179.92
GREEN	1,686,153	2,254,471,981	1337.05	1,065,318	1,680,489,241	1577.45
TOTAL	73,162,544	59,868,456,209	818.29	66,014,321	47,190,352,491	714.85

The final quarter for the year recorded an export volume gain of 7 million kilos and earning almost Rs 13 billion more than 2016. All export categories increased in volume except instant tea. Revenue wise too, each category netted much more to the state coffers than the previous year. Naturally therefore, as evident in each of the previous 3 quarters of the year, the FOB rates were on average Rs 100/- per kilo more than in 2016 except Green tea. One glaring point is the unit FOB rate for Bulk for the first time being higher than for Tea

in packets in a quarter. Even though value addition has been encouraged for many years, a situation like this is not welcome. This has come about largely due to increased volumes of exports of low priced ‘off grades’ to Iraq and Libya for which regrettably the use of ‘Lion’ symbol has also been permitted.

ANNUAL EXPORTS									
	2017			2016			2015		
	QUANTITY	VALUE	FOB/KG	QUANTITY	VALUE	FOB/KG	QUANTITY	VALUE	FOB/KG
	(Kgs.)	(Rs.)		(Kgs.)	(Rs.)		(Kgs.)	(Rs.)	
BULK	125,629,265	92,264,577,343	734.42	125,199,513	68,953,320,426	550.75	132,753,125	68,366,592,451	514.99
PACKETS	134,508,802	102,072,925,788	758.86	134,324,331	79,586,128,190	592.49	145,444,228	80,469,798,945	553.27
TEA BAGS	21,701,376	28,671,581,436	1321.19	23,011,025	27,418,769,905	1191.55	22,151,113	24,929,142,227	1125.41
INSTANT	2,121,396	2,654,960,645	1251.52	2,010,853	2,445,156,776	1215.98	2,130,524	2,179,293,652	1022.89
GREEN	5,023,432	7,674,357,590	1527.71	4,225,359	6,374,940,049	1508.73	4,486,772	6,109,095,433	1361.58
TOTAL	288,984,271	233,338,402,802	807.44	288,771,081	184,778,315,346	639.88	306,965,762	182,053,922,708	593.08

The export volume for 2017 was marginally better than 2016 even though the annual production increased by over 5%. The Bulk and packet exports which account for the larger portion of the total recorded only a few hundred thousand kilos more than the corresponding quantities exported the previous year. Tea bags declined by 1.4 million kilos whilst Green tea exports increased by 800,000 kilos.



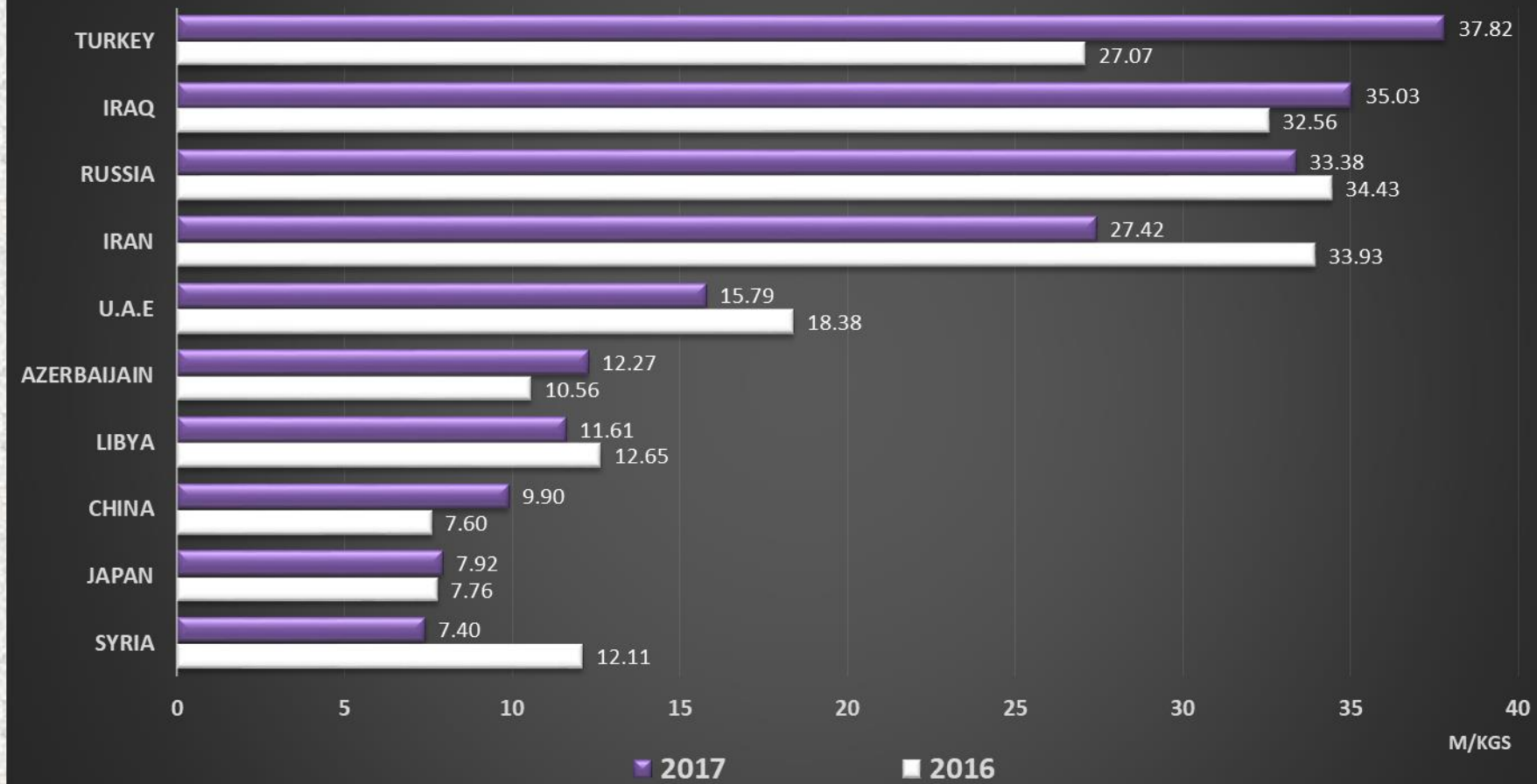
Although volumes did not perform as expected, the revenue broke the previous record of Rs 212.9 billion earned in 2014. In that year, the export revenue reached such a high figure due to a larger volume of exports. However, in real terms, whilst the country earned USD 1.64 billion in 2012, only USD 1.53 billion was earned in 2017. In 2016, it was USD 1.26 billion. The unit FOB price at Rs 807/44 was approx. Rs 167/- per kilo more than in 2016. The increase is little over one US dollar.

COUNTRY	2017	2016
TURKEY	37,815,700	27,068,974
IRAQ	35,032,772	32,557,218
RUSSIA	33,379,977	34,432,739
IRAN	27,418,910	33,928,612
U.A.E	15,785,266	18,381,410
AZERBAIJAIN	12,271,107	10,556,896
LIBYA	11,609,461	12,645,055
CHINA	9,903,199	7,603,870
JAPAN	7,924,043	7,763,607
SYRIA	7,399,616	12,107,279
CHILE	7,096,964	6,671,542
GERMANY	6,809,107	6,853,831
HONG KONG	4,981,483	4,620,051
U.S.A	4,840,109	5,217,958
JORDAN	4,687,743	3,996,222
SAUDI ARABIA	4,416,393	4,513,577
TAIWAN	4,316,885	3,077,046
LEBANON	4,128,407	3,467,815
UKRAINE	4,096,134	4,930,383
NETHERLANDA	2,911,064	3,043,879
AUSTRALIA	2,828,618	2,480,959
BELGIUM	2,631,526	2,908,622
POLAND	2,584,285	2,455,117
KUWAIT	2,435,014	3,527,056
IRELAND	1,946,791	1,819,371

Turkey came back to take the top spot among the leading exporting destinations, a position she held in 2014. The exports to this country recorded 37.5 million kilos whilst Iraq came second at 35 million kilos. Both these countries did better than 2016, improving by 10.8 and 2.5 million kilos respectively. Russia which was the no. 1 destination in 2016, fell to the third spot with 33.4 million kilos, a million less than the previous year. Iran and UAE were no. 4 & 5 with lower export volumes than 2016. Iran in fact declined by 6.5 million kilos. India making severe inroads at the expense of Sri Lanka due to the difficult payment terms for Sri Lankan exports to this destination could be attributed as the main reasons for the fall in off take. Azerbaijan, China and Japan increased their off takes compared to the previous year whilst Libya and Syria did less.

Russia was the largest bulk tea importing country with 27 million kilos and Iran at 14.7 taking the second spot. Among the packet tea importers, Iraq was the highest with 33 million kilos followed by Turkey at 25.7. However, the export FOB price to Iraq was very low. Turkey to import such a large quantity of value added tea when she does not permit direct packaged tea imports for their own consumption shows that majority of that quantity could have been consigned to destinations such as Iraq and Syria. Jordan at 2.2 million kilos and Australia at 1.9 million kilos are the biggest markets for Sri Lanka's tea bag segment.

Top 10 Export Destinations 2016 Vs 2017



Expectations for 2018

Going by the weather pattern that prevailed in the last few months of 2017, reasonable auction quantities will be available in the first 2 – 3 months of the new year. This will be a confidence booster to the exporters as well as to the importers that there will be no shortage of Ceylon tea in the first half of 2018 unlike in the previous years. Consequently, stable prices should remain at least in the early part. The forthcoming Western (Dimbula) quality season should also help in maintaining profitable prices particularly for estates in this region. However, with satisfactory offerings leading to stability in prices could also see poor leaf, plainer teas being discounted.

There are some disturbing factors emerging which could jeopardise the present price trend. The Japanese government's revision of the MRLs for chemicals in 2017 which Sri Lankan authorities seem to have missed has caused a lot of heartburn to a number of tea exporters to this destination. Some of them are faced with an unknown future concerning teas which were found to contain higher levels of MRLs than those prescribed by the Japanese leading to large sums of funds blocked as Japanese importers are debarred from using such tea. The main reason for this predicament is the ban on use of 'Glyphosate' as a weedicide by the Sri Lankan government pushing the plantations to use various types of alternatives both authorized as well as unauthorized.

This wound being bad enough, the suspected blackening of teas mostly of low grown elevation have also caused ripples both among the importers of 'Ceylon' tea and the producer fraternity who are up in arms with the regulatory authority for carrying out random checks, the methodology of which they claim is questionable.

Whichever way one looks at these setbacks, the tea industry has to take a unified stand on these issues to help overcome the negatives now building up against 'Ceylon' tea by Japan, Russia, EU and USA.

On the export front, as the volume shipped during 2017 was not much different to the previous year although netting in the highest ever revenue, a drastically improved performance will be expected particularly by the country's exchequer.

All in all, with the unit FOB price of Sri Lanka's tea at over USD 5.00, in comparison to most other producer countries which are in the region of USD 3 – 4, the global packers will certainly look at reducing the share of Ceylon tea in their packs. Whilst this may be viewed as a negative from one angle, it also paves the way for many other users to have a taste of our brew.

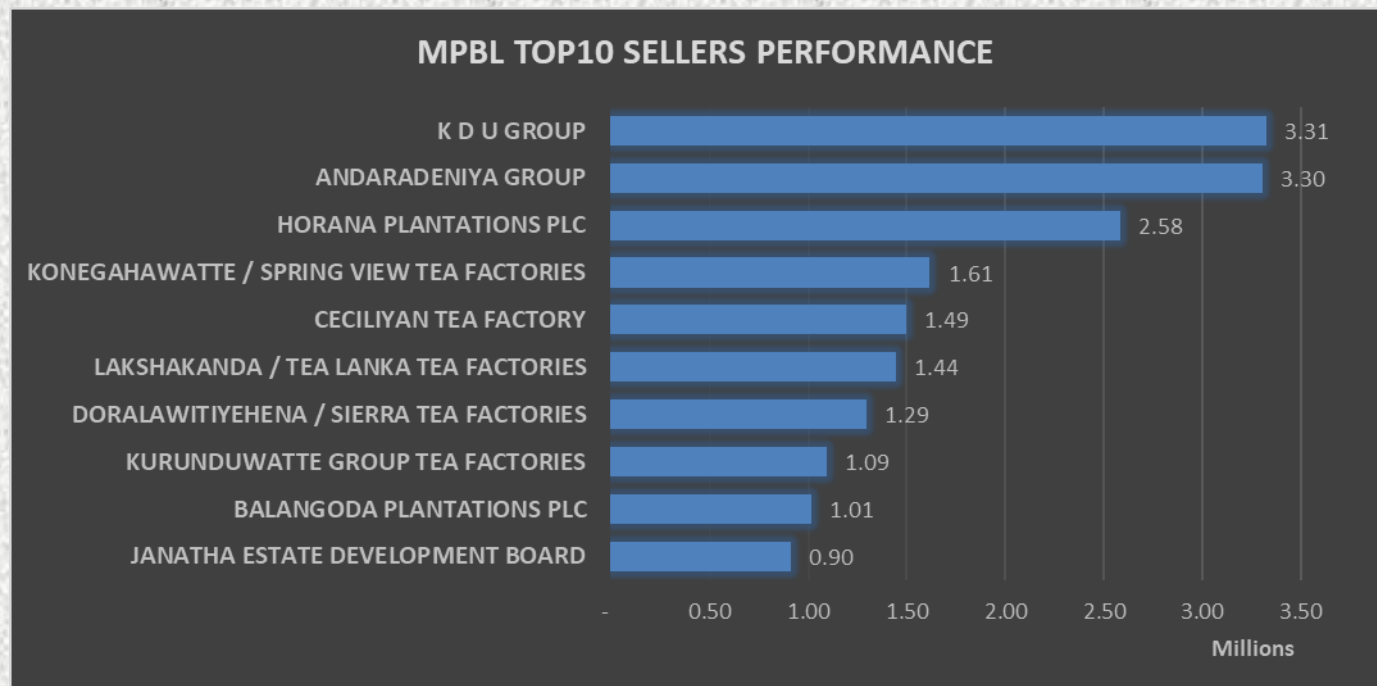
One such country that has been steadily increasing their off take from Sri Lanka is China. Exports to this destination increased to almost 10 million kilos from 7.6 the previous year. The situation facing the Middle East is precarious and therefore dependency on this region particularly battered nations

such as Syria and sanctioned countries like Iran and even Russia can affect Sri Lanka’s exports to some extent. The rising price of a barrel of crude oil and the strengthening of the Russian ruble on the other hand give a lot of ‘hope’ for Sri Lankan Tea.

Even with the entry of newer producing countries and China’s ever expanding production, the reputation of “Ceylon Tea” built over the last 150 years still has an edge.

ACKNOWLEDGEMENT

MPBL wishes to thank all our producer clients for their unrelenting confidence by entrusting to us the sale of their produce. Equally important to mention are the buyer fraternity who have continued to patronize the MPBL catalogue to source their requirements of tea throughout 2017 to whom we owe a great debt of gratitude. It is through your unstinted support that we have been able to secure for our producers the best prices for their produce.







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