



**2018
1st HALF
TEA REVIEW**



MERCANTILE PRODUCE BROKERS (PVT) LTD



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FIRST HALF REVIEW 2018

HIGHLIGHTS

TEA PRICES DECLINING COMPARED TO 2017

PRODUCTION UP 1.5 M/KGS

EXPORT VOLUME DOWN 1.1 M/KGS VALUE UP Rs.3.5 BIL.

CHINA HARVESTED 2.5 BIL. KGS IN 2017

KENYA TODATE 30 M/KGS UP





ECONOMY

Surging Imports have widened the trade deficit by 20% at the half way point of the year. With Imports increasing by 12.7% and Exports only gaining by 6.2% have resulted in this poor performance.

Textiles and garments with a 6.8% increase has contributed in no small measure towards the gain in exports whilst Agriculture exports have recorded a 5.4% drop. Motor vehicle and Fuel have been largely responsible for the massive increase in imports.

Central bank has downgraded the growth forecast for the year from 4.5 % to 4%. First half growth according to CBSL is likely to be 3.5% and the 2nd half should target 4.6% to achieve the adjusted growth which the economists believe is possible.

Inflation in July has gone up with both CCPI and NCPI recording increases of 5.4% & 3.4% respectively.

In the global scene, Brent crude oil price fell by 6.9% to \$74 per barrel from \$79 in July. This is due to a likely oversupply situation as at now. However, the price of a barrel is expected to move up in August with Iranian production expected to be curtailed due to the US threat of further tightening the sanctions on this nation.

WEATHER

First quarter had some useful intermittent showers when compared to previous years where the period under reference is generally known for hot weather with almost drought like conditions which most often go on until the New year.

In the second quarter the rains intensified by early May and persisted throughout the rest of the quarter with western plantation districts in particular experiencing landslides and floods with hardly any sun light and very low temperatures for an extended period of time.



AUCTION OFFERINGS

Similar auction offerings to corresponding sales of 2017 dominated the first quarter. This was expected due to the low crops in the last 2 months of 2017. New Year and Wesak holidays leading to the absence of one auction and a restricted one early May against a backdrop of good harvests in the first quarter ensured that 7 – 8 M/kilo sales prevailed throughout the last 2 months of the 2nd quarter. However, excessive rain, lack of sunlight and cold weather in the plantations from May onwards will result in poor auction offerings in the 3rd quarter.

FIRST QUARTER

Sale No	1	2	3	4	5	6	7	8	9	10	11	12	13
QTY ON OFFER 2018	5.90	6.10	6.20	7.50	7.30	6.40	6.90	6.30	6.00	5.80	6.20	5.70	6.10
UNSOLD % 2018	5.90	5.40	5.70	6.80	7.90	8.50	11.70	13.60	9.90	9.80	10.40	8.70	10.80
QTY ON OFFER 2017	6.70	6.30	7.80	7.70	7.10	5.70	5.90	5.70	4.70	5.00	5.30	5.30	5.40
UNSOLD % 2017	3.00	3.20	2.60	3.50	8.40	3.60	3.40	5.30	4.20	2.00	3.80	1.90	3.70

SECOND QUARTER

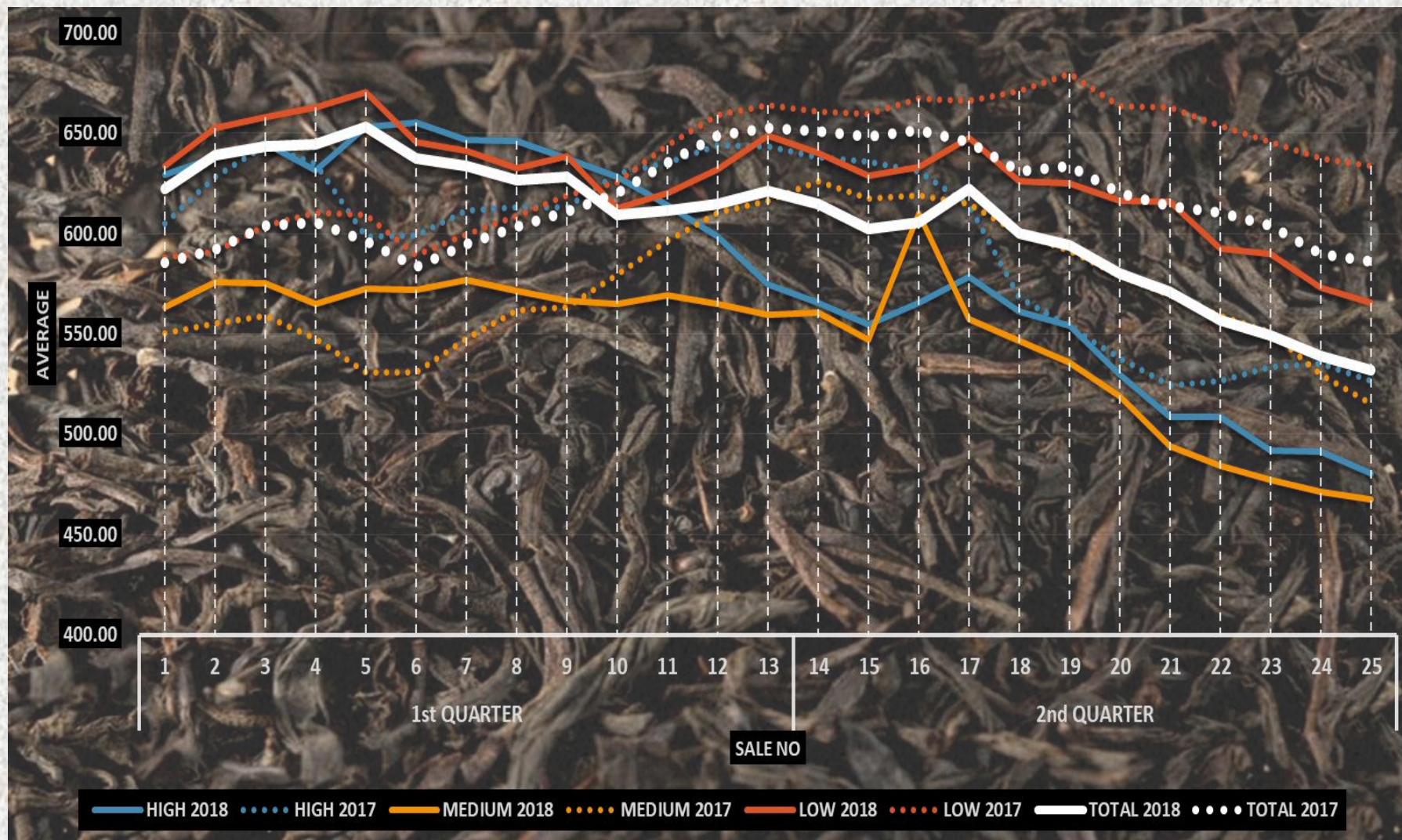
Sale No	14	15	16	17	18	19	20	21	22	23	24	25
QTY ON OFFER 2018	6.40	6.70	6.40	4.70	7.40	8.00	7.90	8.00	8.10	7.90	7.60	7.30
UNSOLD % 2018	10.20	12.40	8.50	4.40	9.40	9.70	15.00	14.50	10.30	11.70	13.00	14.60
QTY ON OFFER 2017	5.50	6.00	6.20	6.50	4.80	8.30	8.50	7.50	7.10	7.70	6.50	5.90
UNSOLD % 2017	1.80	3.30	3.20	3.10	5.80	3.60	5.90	7.40	5.60	29.60	5.80	8.20

Teas remaining unsold per auction were higher compared to corresponding sales in 2017 and continued to increase from approx. 5% to 10% by the end of the first quarter and more in the second quarter, at times touching 15%. This appears to be in line with the declining price levels which commenced from about Sale no.6.



PRICES

Weekly Averages



High grown beginning the year at Rs. 629.26 moved up to Rs 645.03 by Sale no.03. A drop in Sale no. 4 followed by a hike in the next 2 sales saw price for this elevation reaching a high of Rs 655.45 at Sale no. 06. A continuous decline began there onwards to reach Rs 574.78 by the last sale of the first quarter. Probably the absence of an auction due to the National New Year resulted in prices temporarily moving up to Rs 578.34 at Sale no.17. Thereafter, prices for high grown began to slide steadily to close the first half at Rs 480.64, down by approx. Rs 148/- per kilo from the start of 2018.

Mediums commencing at Rs 563.06, moved up at the next 2 sales and dropped at Sale no. 4. Thereafter, showed a slightly upward but a flattish trend peaking at Sale no. 7 with a price of Rs 576.97 and then ending the 1st quarter at Rs 559.39. Except for Sale no. 16 which realized a 'freak' Rs 609.63, the second quarter witnessed a continued downward trend to close the half year at Rs. 467.19

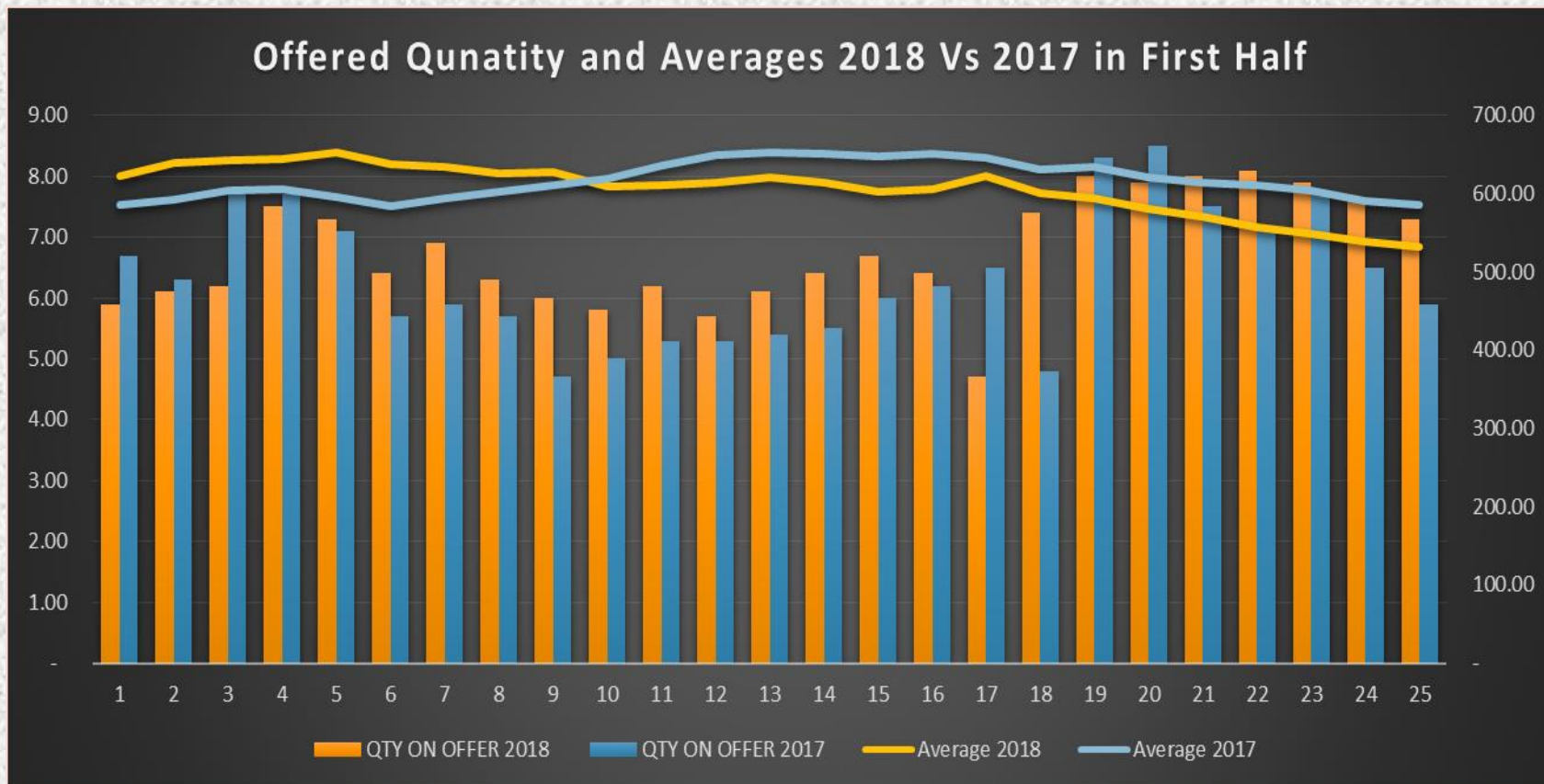
Beginning the year at Rs. 633.59 Low grown continued to move up to reach Rs 670.51 at Sale no. 5. Prices declined thereafter to Rs. 612.45 at Sale no 10 and moved up once again to touch Rs 648.80 at the last sale of the first quarter. First 2 auctions of the second quarter saw prices coming down successively and then gained in the next 2 to reach Rs 647.83 at Sale no. 17. A steady decline followed to end the first 6 months of 2018 at Rs. 565.16, recording a drop of Rs.68/- from the level that prevailed for this elevation at the start of the year.

Total average following an identical pattern to the low grown elevation, opened the year at Rs 622.39 and advanced to Rs 653.02 by Sale no.5. Thereafter, prices fell steadily to Rs 609.16 at Sale no.10. A little hike from then on saw price reaching Rs 621.39 at the end of the first quarter. Sale nos 14 & 15 witnessed a decline and moved up the next 2 auctions. This upward movement was short lived as a steady drop resulted thereafter till the end of the first half of this year. Sale no 25 closed at Rs 532.03, a drop of Rs 90/- from the first sale.



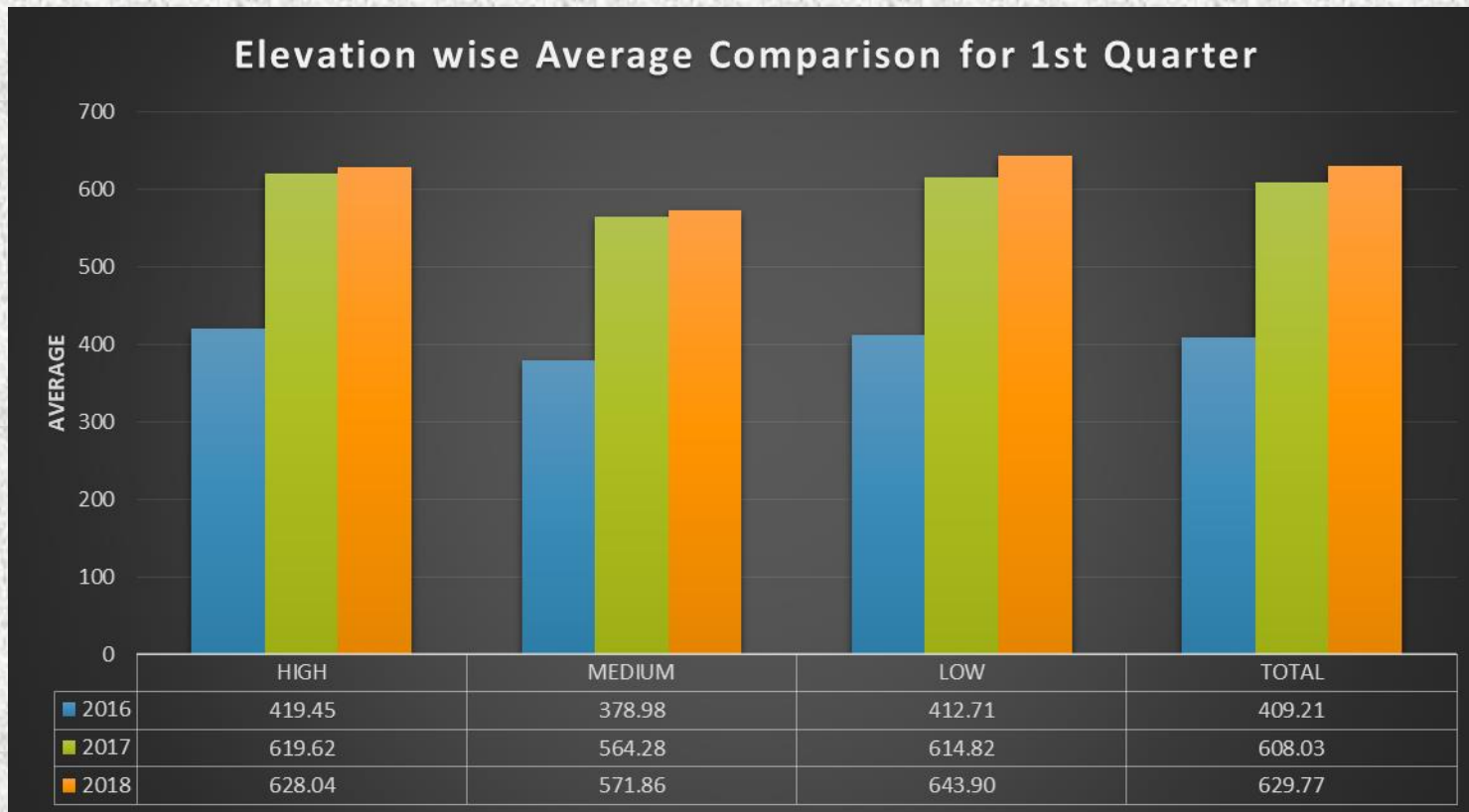
WEEKLY OFFERINGS vs TOTAL AVERAGE – 2017/2018

As the first 5 auction offerings were lower to those of 2017 and quality showing an improvement, prices remained fairly stable and higher than the levels that prevailed at the corresponding auctions of last year. With auction availability increasing steadily from Sale no. 6 onwards, lowering of prices began from Sale no. 10. From Sale no 17 a further declining trend was witnessed. Even in 2017 a similar price dropping pattern was evident but at a higher level to this year as seen in the graph below.





1ST QUARTER AVERAGES

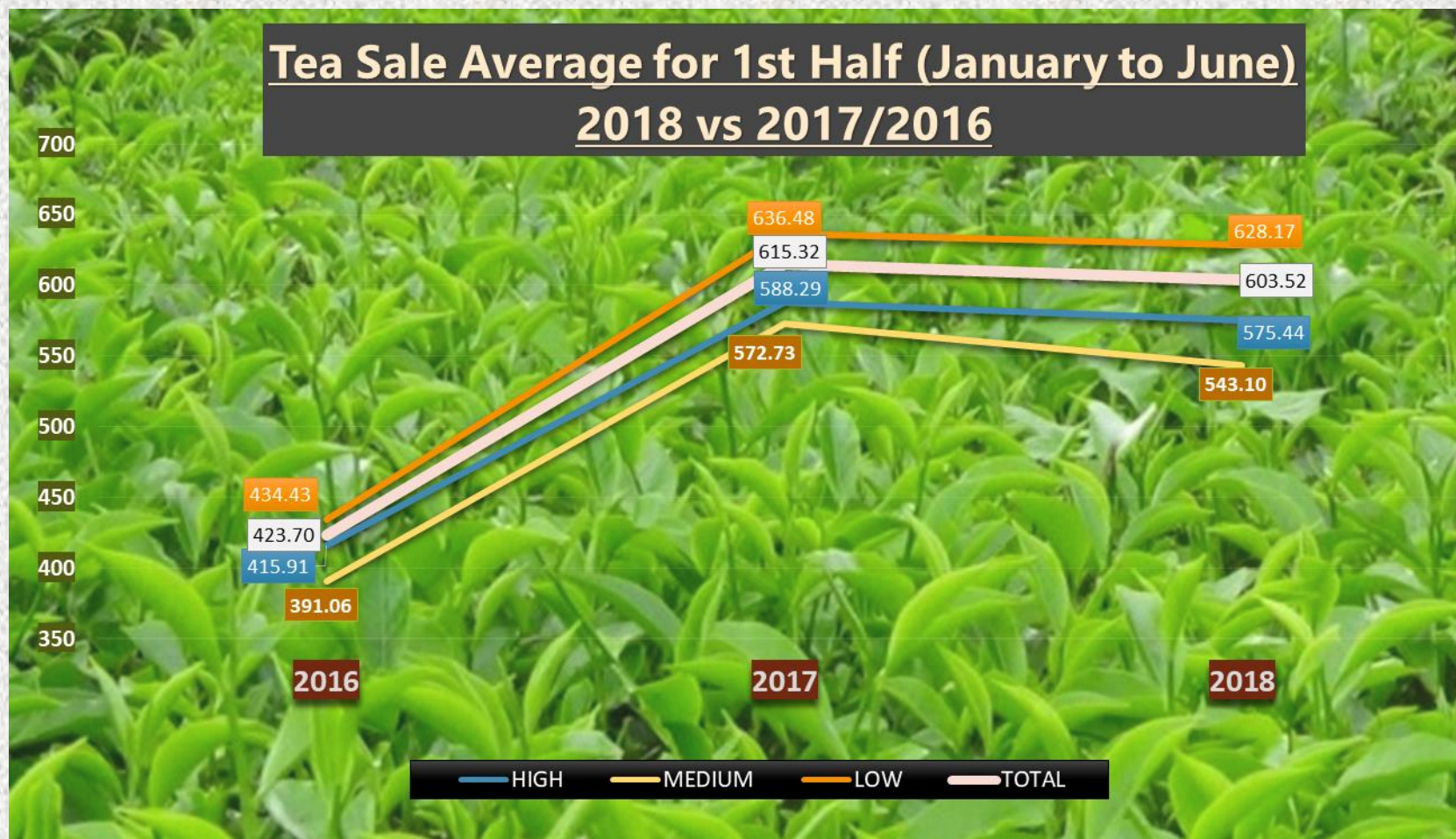


Elevational averages for 2018 were around Rs. 200 per kilo above 2016. Comparing with 2017, High and Medium elevations were only approx. Rs. 8 more. Low grows were Rs 29/- above 2017 and the total average too was higher by Rs. 22/-

In the second quarter, this trend was reversed. The averages at the end of the first half of 2018 show declines of Rs 13, 30, 8 and 12 respectively for high, medium, low and total.



FIRST HALF AVERAGES





PRODUCTION

Jan/Feb/Mar & 1st Quarter

	January		February		March		1st Quarter	
	2018	2017	2018	2017	2018	2017	2018	2017
High	5,115,925	4,545,901	4,953,227	3,939,102	6,123,625	5,955,156	16,192,777	14,440,159
Medium	3,186,580	2,717,136	3,082,196	2,637,934	3,936,487	4,289,306	10,205,263	9,644,376
Low	16,077,980	14,263,631	12,949,078	11,898,737	18,249,809	16,024,615	47,276,867	42,186,983
Green	162,632	159,822	196,710	137,153	299,492	308,286	658,834	605,261
Total	24,543,117	21,686,490	21,181,211	18,612,926	28,609,413	26,577,363	74,333,741	66,876,779

Healthy crops for January, February and March, each gaining by over 2 M/kgs over the corresponding months of 2017 resulted in the first quarter recording a gain of 7.5 M/kgs over the same quarter last year.

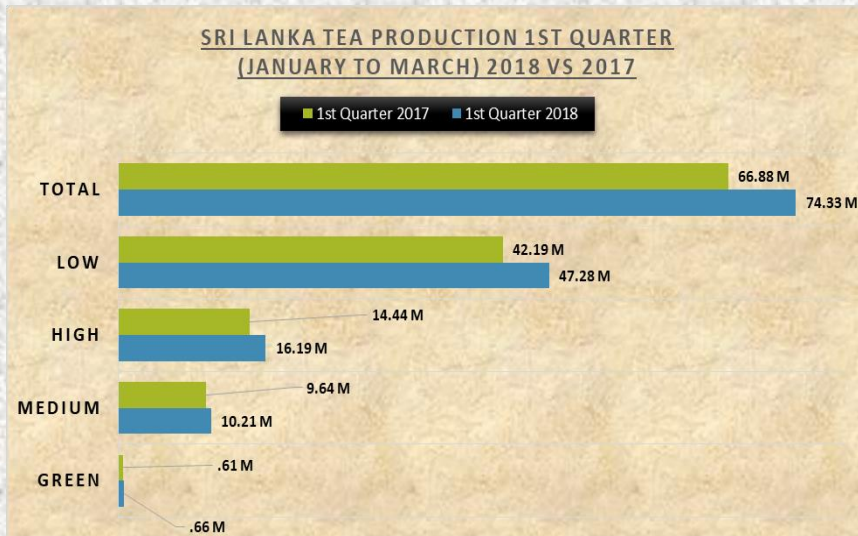
Apr/May/June & 2nd Quarter

	April		May		June		2nd Quarter	
	2018	2017	2018	2017	2018	2017	2018	2017
High	7,343,825	8,264,345	7,297,735	7,554,813	4,694,841	5,061,628	19,336,401	20,880,786
Medium	4,743,372	5,102,314	5,223,576	4,766,500	3,455,226	3,762,158	13,422,174	13,630,972
Low	15,672,718	19,248,924	20,039,935	17,087,299	14,656,770	18,141,416	50,369,423	54,477,639
Green	258,775	329,048	259,584	308,386	224,565	274,723	742,924	912,157
Total	28,018,690	32,944,631	32,820,830	29,716,998	23,031,402	27,239,925	83,870,922	89,901,554

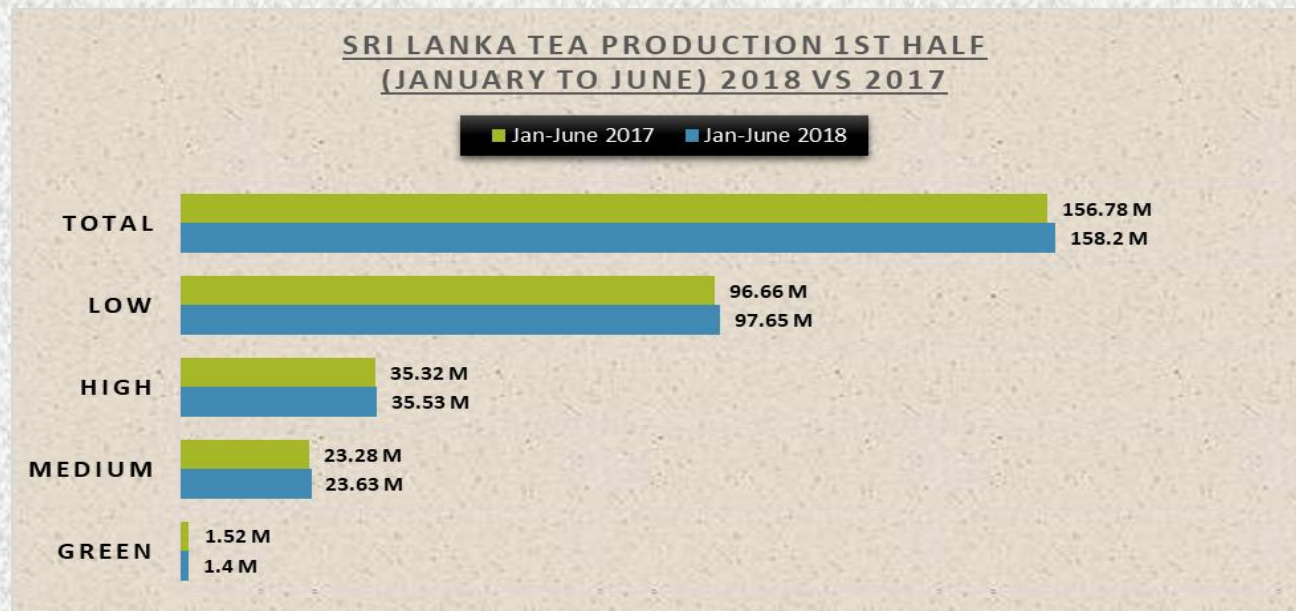
The crop situation reversed in the second quarter with April and June each recording over 4 M/kgs deficits. May although harvesting 3.1 M/kgs more than the previous year, could not prevent a 6 M/kgs crop loss for the 2nd quarter. This considerably narrowed the production gain for the first half of 2018 over 2017 to 1.5 M/kgs.



QUARTERLY COMPARISON



FIRST HALF





EXPORTS

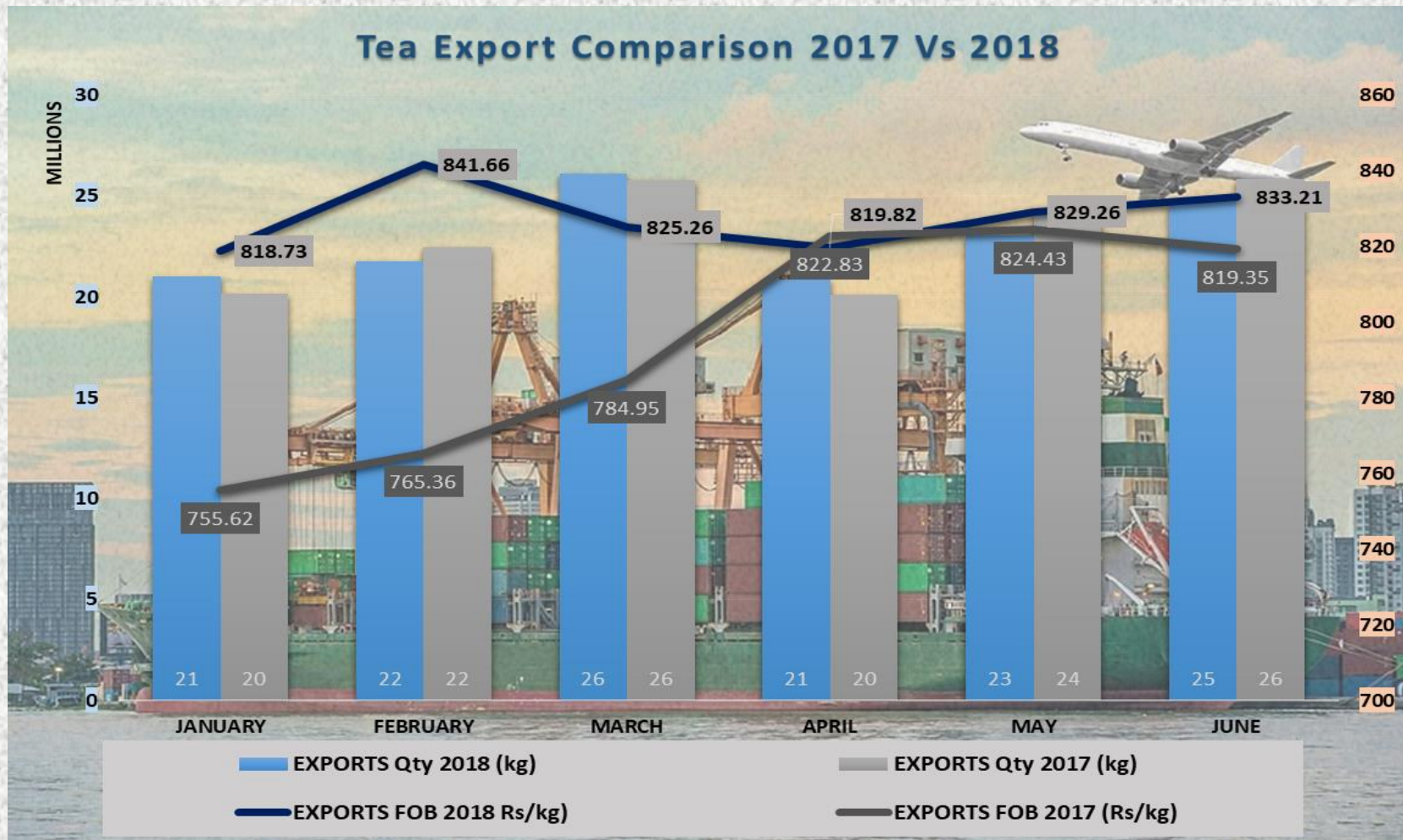
1st QUARTER

	2018			2017		
	QUANTITY	VALUE	FOB	QUANTITY	VALUE	FOB
BULK	29,665,140	22,076,009,850	744.17	28,404,462	19,788,379,910	696.66
PACKETS	32,228,680	25,196,179,391	781.79	33,113,748	23,718,188,280	716.26
TEA BAGS	5,302,964	7,174,970,541	1353.01	5,311,716	6,870,291,676	1293.42
INSTANT TEA	633,884	830,653,727	1310.42	526,390	620,547,211	1178.87
GREEN TEA	1,055,174	1,790,572,292	1696.95	1,051,250	1,667,562,952	1586.27
TOTAL	68,885,842	57,068,385,801	828.45	68,407,566	52,664,970,029	769.87

2nd QUARTER

	2018			2017		
	QUANTITY	VALUE	FOB	QUANTITY	VALUE	FOB
BULK	28,874,301	21,376,544,401	740.33	30,725,298	22,796,360,755	741.94
PACKETS	32,571,685	25,564,644,415	784.87	32,563,795	25,514,540,538	783.52
TEA BAGS	5,541,429	7,279,684,427	1313.68	5,585,229	7,283,045,154	1303.98
INSTANT TEA	666,997	852,516,248	1278.14	489,301	595,654,816	1217.36
GREEN TEA	1,046,315	1,797,883,761	1718.30	917,043	1,588,316,262	1732.00
TOTAL	68,700,727	56,871,273,252	827.81	70,280,666	57,777,917,525	822.10

Monthly performance in the 1st quarter was excellent in terms of volume, value and unit FOB rate per kilo except February's export quantity which was 700,000 kilos behind 2017. Consequently, the 1st quarter export quantity was approx. 500,000 kilos higher than 2017 and netted Rs. 4.4 Bil more as shown in the following table.

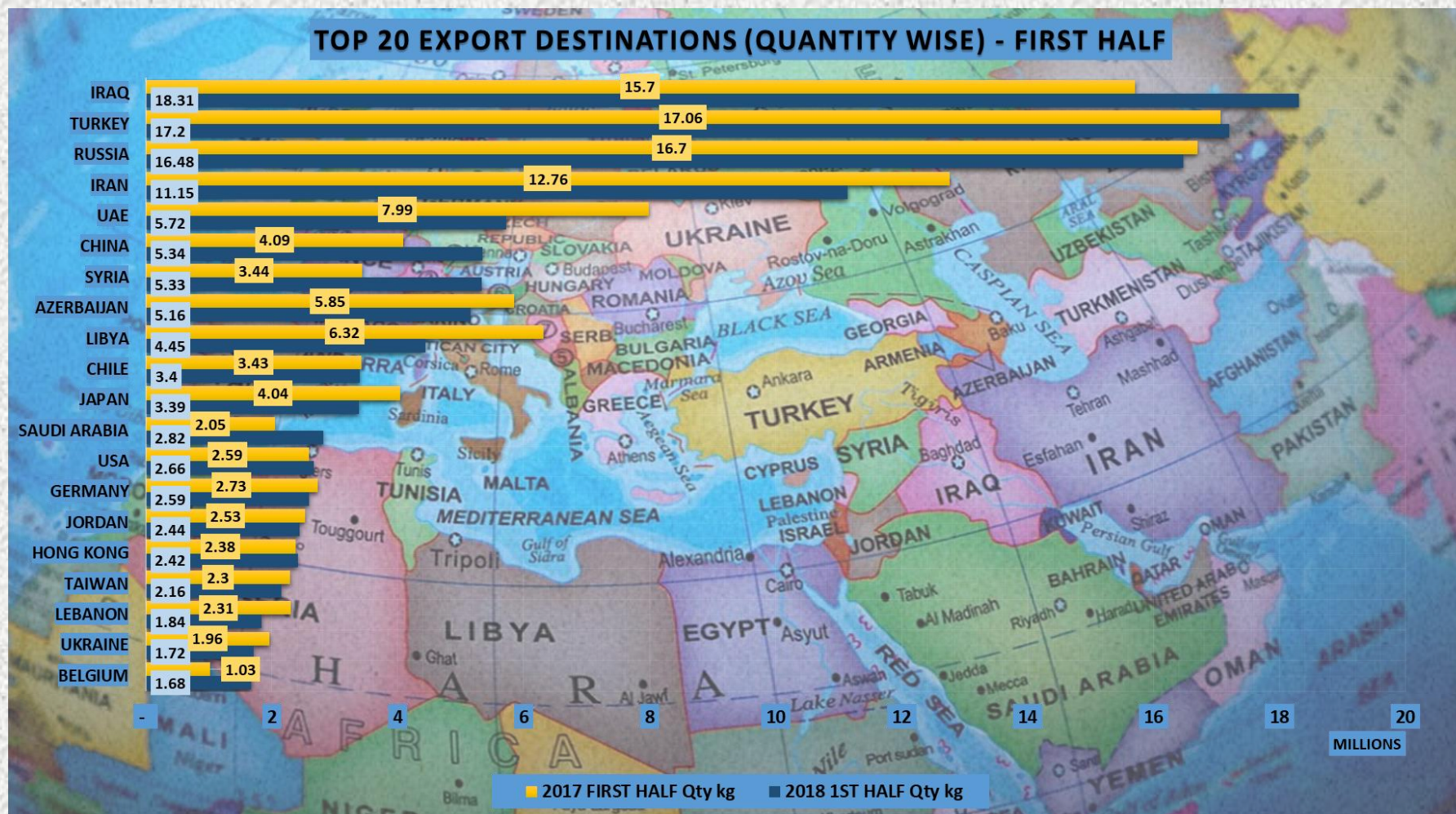


2nd quarter saw April doing better in volume but lower in revenue compared to last year. With falling prices due to restricted demand from Iran, Turkey and Russia, May and June suffered both in export quantities and earnings. This resulted in the quarter recording volume and value deficits of 1.5 M/kilos and Rs. One billion respectively YoY against 2017.

**FIRST HALF**

	2018			2017		
	QUANTITY	VALUE	FOB	QUANTITY	VALUE	FOB
BULK	58,539,441	43,452,554,251	742.28	59,129,760	42,584,740,665	720.19
PACKETS	64,800,365	50,760,823,806	783.34	65,677,543	49,232,728,818	749.61
TEA BAGS	10,844,393	14,454,654,968	1332.92	10,896,945	14,153,336,830	1298.84
INSTANT TEA	1,300,881	1,683,169,975	1293.87	1,015,691	1,216,202,027	1197.41
GREEN TEA	2,101,489	3,588,456,053	1707.58	1,968,293	3,255,879,214	1654.16
TOTAL	137,586,569	113,939,659,053	828.13	138,688,232	110,442,887,554	796.34

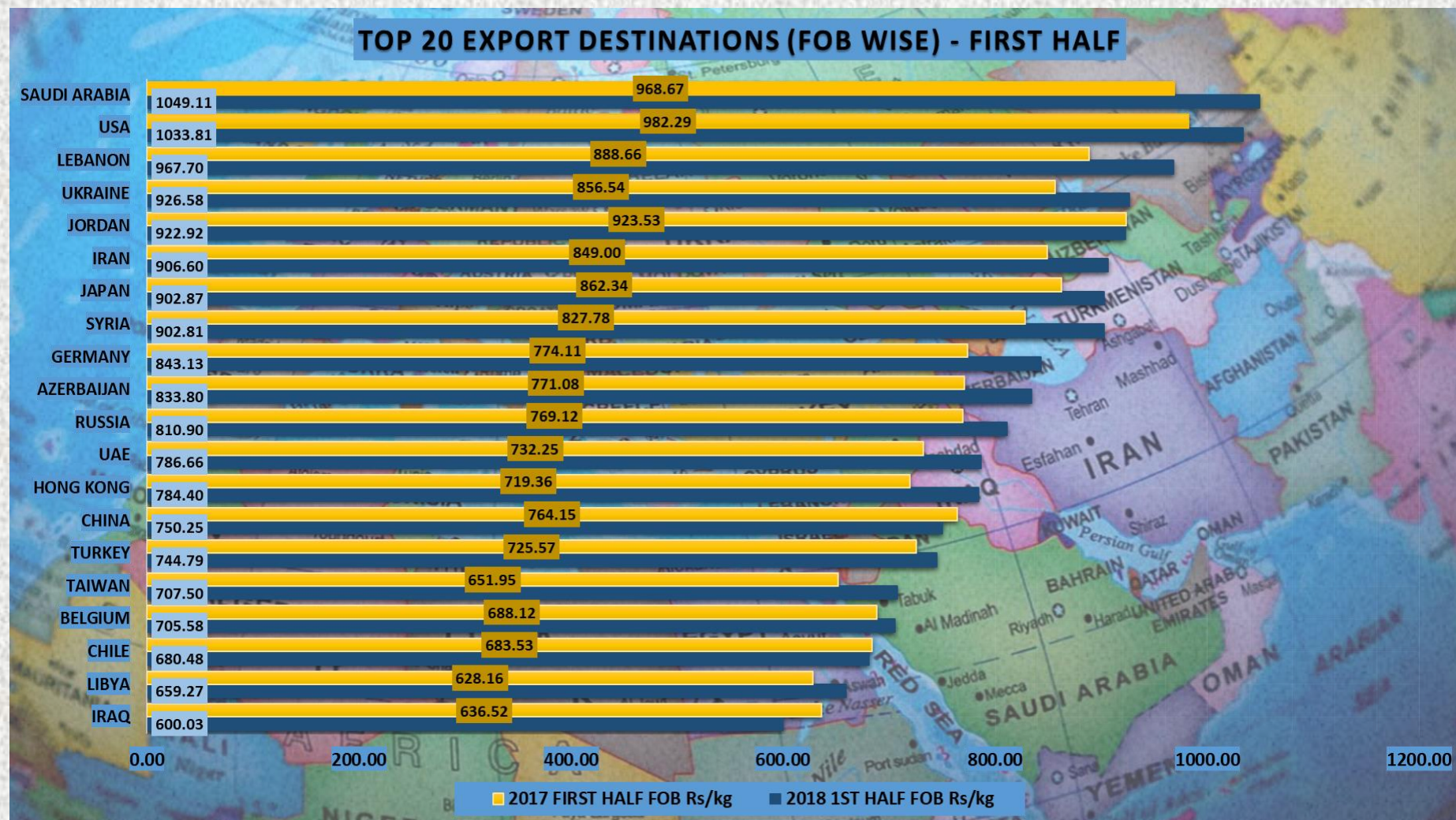
1st quarter gains however helped the January – June export earnings to be Rs. 3.5 Billion higher than the previous year but could not prevent a quantity decline by 1.1 M/kilos. The unit export FOB price for the first quarter which was approx. Rs. 58 above last year shrank considerably to Rs 827.10 for the 2nd quarter, only Rs. 5 higher than the same quarter 2017. The first half recorded a unit FOB of Rs. 828.13 per kilo vis-à-vis Rs. 796.34 for the same period last year.



Iraq dominated the period under review holding the top position in each successive month. This export destination accounted for 18.3 M/kilos for the first 6 months of the year compared with 15.7 M/kilos in 2017.

Turkey with 17.2 M./kilos, followed by Russia – 16.5 M/kilos & Iran 11.1 M/kilos were the other leading destinations. In comparing with their performances of 2017, Turkey has shown a marginal increase whilst Russia has dropped by approx. 200,000 kilos. Iran has declined rather significantly by 1.6 M/kilos denoting the tightening of sanctions on this country leading to not only the weakening of their currency but also the difficulty in making payments.

UAE has also shown a drastic drop of 2.27 M/kilos whilst China has imported 1.2 M/kilos more than the same half year period of last year. Syria records an increase in exports but Libya, Azerbaijan, Chile and Japan have fallen behind their off takes in 2017.



OUTLOOK – SECOND HALF 2018

Having commenced the year with all indications of an improvement in production and proven by the excellent first quarter performance, weather once again wreaked havoc in the second quarter to place Sri Lankan Tea industry on an uncertain future.

With production falling behind in the 2nd quarter, the availability of tea for the 3rd quarter appears insufficient to meet the usual 'winter' demand. This tight situation would have augured well in terms of prices. Unfortunately the situations facing some of Sri Lanka's leading tea export destinations project a bleak future with rapidly declining tea prices. In fact the tea prices which began to fall from May, continues in to the 3rd quarter leaving producers with a similar situation that prevailed in 2015. In the past, tea prices have seen an upward trend from September and continues at least until early November. Tight supply position and a rapidly falling Sri Lankan rupee would normally create the right environment for a sharp hike in prices.

However, the economic sanctions imposed on Russia, China and Turkey and the tightening of sanctions on Iran are having a telling blow on Sri Lanka's tea prices. On top of that, the failure on the part of Sri Lanka to give the Japanese authorities the assurance that Ceylon Tea will be free of MCPA has affected exports to this destination as well. As Japan is unwilling to wait indefinitely, their importers are compelled to switch to other tea producing countries like India and Kenya. Kenya capitalizing on Sri Lanka's inability to resolve a suitable payment mechanism with Iran due to US sanctions and the potential demand from Japan has swiftly converted more factories to orthodox manufacture. This, if not now, in the medium term, will pose a serious threat to Sri Lanka's tea exports. Some unofficial reports from Japanese importers indicate that the Kenyan orthodox teas are found to be as good or even better than Ceylon Orthodox Tea.

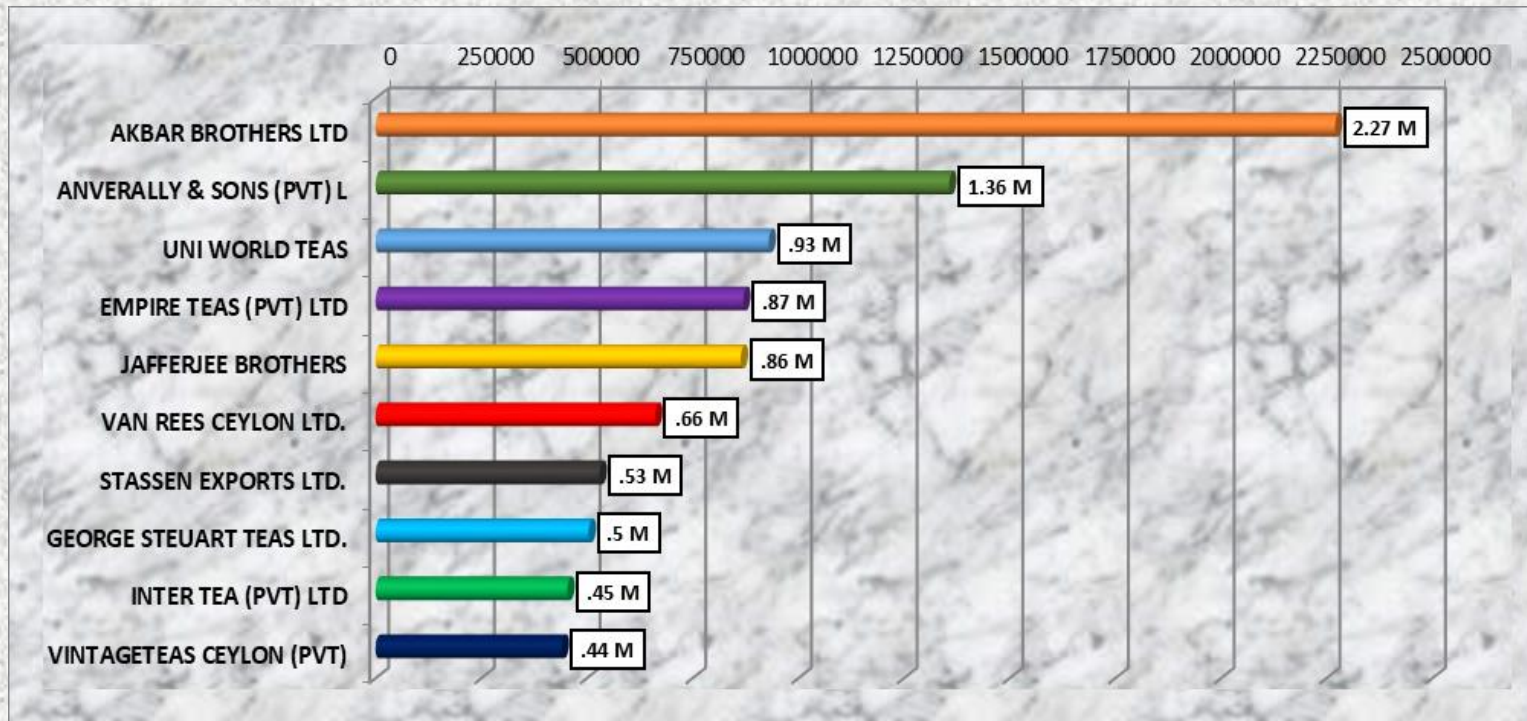
Trade experience over the years however has been that the difficult financial or economic situations faced by importing countries somehow resolve itself with new channels emerging for payments to flow through. None of these countries would withhold buying tea for a long period of time as tea is an integral part of citizens in these regions. Sri Lanka's production is undoubtedly heading towards a decline due to drought conditions in some of the planting districts and the after effects of the excessive rains which hampered growth in the Western plantations during the usual high cropping period. It is inevitable therefore that a shortage of orthodox tea will result from August onwards.

Russia and the Middle East need at least some quantity of Ceylon Tea at this point of time. However, with US dollar strengthening against most currencies, including the Russian ruble, the buying powers of most importing countries will be affected. Therefore, at the most there will be reduced offtakes to these destinations. Sri Lanka could still hope for firm or even slightly higher levels than at present.



MPBL TOP 10 BUYERS

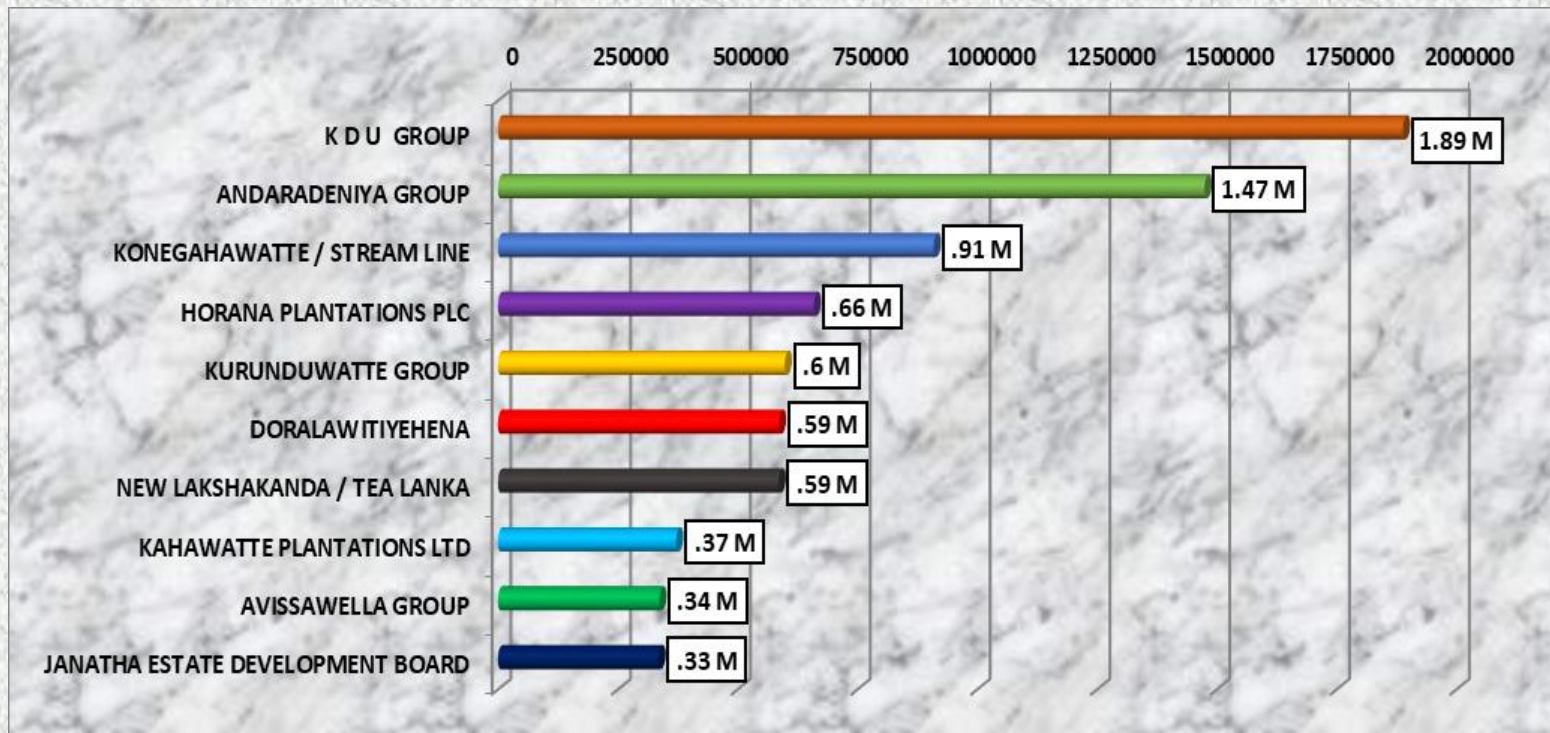
A big “Thank you” to all who patronized the MPBL catalogue throughout the period under review.





MPBL TOP 10 SELLERS

MPBL records with appreciation the confidence reposed on the company by all their clients who continue to entrust the sale of their produce to them.





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