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- Market Update—Spices
- Tomato Crop
- Longhorn IFT Supplier's Night Event

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ADVANCED SPICE & TRADING, INC.

Advanced Newsletter

Market Update—Spices

Prices are on the rise. I am entering my 18th year of selling spices and have been involved with the purchasing and sourcing of spices for 13 of those years. I have never seen such upward price movements, in both percentage increase and in the number of items. Prices from the countries of origin are up over 22% from this period last year, on a total pocket of all spices purchased. This means that for every item that is flat in price or up only slightly, there are other items up 40% and more. In this newsletter, I am going to try and cover some of the underlying issues causing this increase, and of course, I will try and cover some specific markets as well.

The Currency Factor

The US dollar continues to be devalued against other world currencies. The total US debt situation, the politics in Washington and the growth of other world economies are all leading causes for this decline. Since August of last year, the US dollar has declined over 10% versus the Euro, and has declined over 5% versus the Chinese, Canadian and Indonesian currencies and 4.8% versus the Indian currency. The decline in the US dollar is not only increasing the costs of all imported goods, but it is also a big factor in the volatility of pricing. Overseas suppliers, who

historically, have been willing to provide firm pricing for a full year period after harvest are now hesitant to do so, or they are building premiums into the pricing, to cover currency fluctuations. This is a relatively new phenomenon in our industry. In the past, where suppliers have been willing to lock down commitments for 12 months, we are now limited to as few as 3 months at a time. Inflation at the source country, also makes the farmers and traders unwilling to commit and turn their product into cash. A prime example of this is the Vietnam black

(Continued on page 2)

Processed Tomato Crop

Lack of sunshine and cooler than normal temperatures at night, caused some delays in the tomato harvest and have reduced the overall size of the expected crop from the earlier estimates. With all that being said, this year's crop is going to turn out just fine, unless there are some unseasonably early rains before mid to late October. The estimated crop size has been revised down from

12.6 million tons to an estimated 12.2 million tons. The field price for the raw material went up to \$68 per ton, a 4.6% increase over last year. Recent visits to the fields and our packer Neil Jones, by Hanks Brokerage employees, Doug, Rory and JD indicate that the tomatoes are looking good and that the quality of the finished product is very good. Neil Jones has made a number of process

improvements this year in a continuous improvement effort towards zero defects. If you would like Hanks Brokerage and the Neil Jones Food Companies to quote on any of your tomato needs, please contact your sales representative.

Greg Hanks

Spice Market Continued



(Continued from page 1)

pepper harvest. Vietnam has typically brought the product into market quickly so that they could turn their crop into cash. Vietnam is currently experiencing internal inflation of over 10% and therefore the farmer benefits from holding the crop, versus cash. This has caused continued inflationary pressure on prices throughout the year, with each new purchase of raw material costing more than the last.

Emerging Economies

I spent much of the last newsletter discussing the fact that the US has a diminishing role in the supply and demand pricing factors of many commodity purchases due to the growing economies and purchasing power of many countries. I was at a purchasing seminar earlier this year and when talking about China, they shared that the Chinese population grows over 100 million each and every year. To put that in perspective, it means that every 3 to 4 years, the purchasing power of China grows the entire size of the United States. India is also in a similar situation with growth and purchasing power.

Black Pepper

Black Pepper has hit new highs for the last 10 year period and we have not seen the peak yet. Black Pepper is a vine, and it takes three years after planting before it begins producing harvestable product. Typically the cure for high prices, is just that, high prices, but black pepper is not a crop that can be planted quickly to alleviate supply issues within the year. Without a significant decrease in world demand for black pepper, it is going to take supply a few years to catch up, due

to the life cycle of the pepper plant. As of right now, the closest sign of relief in pricing is the Vietnamese crop next February. The Brazilian crop, which is actually the next crop to be harvested, has already been taken into account for current market pricing, as companies have gone out and pre-purchased much of the harvest. Right now, the real question is, how high can prices go, not when will they begin to drop. It is my opinion that we will continue to see prices rise into the first quarter of 2012. We all hope and pray that the Vietnamese crop will create an opportunity for a downward price correction, but there is a very high risk of us staying high through 2012. The bottom line is that it is currently a supply issue that is driving the market up.

Chinese Garlic

The Chinese garlic market, which many at first, hoped would come crashing down in prices, has begun to show strength recently. There are many less reputable suppliers overseas who began throwing out new crop pricing, well before a single pound of product had been dehydrated. They were quoting based on blending old 2007 and 2008 crop product with the new crop. The problem with that thought process was the fact that much of the old crop product supply was finally drying up and that the new crop pricing for this year, did not come down as far as they expected. We have already seen defaults on lower price contracts that companies tried to write with those less reputable suppliers. It will be another 60 days before the supply and pricing of Chinese garlic becomes clear. Beware of offers that seem too good to be true and make sure you ask for pre-shipments samples to determine quality.

Greg Hanks

LONGHORN IFT SUPPLIER'S NIGHT EVENT

Thursday, September 29, 2011
3:00 to 8:00 PM
Embassy Suites, Frisco, Texas

Register to attend for FREE at
[http://www.longhorn-ift.org/
registration/
AttendeeRegistration.htm](http://www.longhorn-ift.org/registration/AttendeeRegistration.htm)

Your FREE registration
includes:

1. Entry to the show floor with over 300 exhibiting suppliers of ingredients, services and equipment to the food industry.
2. Entry to the free technical sessions held prior to the show floor opening.
3. FREE food and drink during the show hours.
4. Entry into the job fair running during the show.
5. Entry into the after show networking social event.

If you are not local, we highly recommend you make your hotel reservations soon at:

[http://
embassysuites.hilton.com/en/
es/groups/personalized/D/](http://embassysuites.hilton.com/en/es/groups/personalized/D/)