



17th June 2017

WWW.PRIMESTOX.COM
Funds 2 Food

TEL: +44 (0) 207 846 0153

ADDRESS:

1st Floor | 23 Princes Street
London | W1B 2LX

VANILLA MARKET REPORT

Dear PrimeStox Investors,

Following the launch today of our vanilla co-investment offer I wanted to write you a quick report summarising the reasons for the steep rise in vanilla prices in recent years. Since 2012 prices have increased from about £50/kg retail to over £650/kg today, and more for premium varieties.

To help you understand the reasons and take a decision yourself on this crop as an investment we list some factors below. We also present some factors that could contribute to a moderation of prices in the medium term.

In terms of quantities, Madagascar produces approximately 3,000 tons per year of vanilla, Comoros produces about 50 tons, Mexico 100 tons.

Factors causing price increases:

- **Growing global demand, especially from the developing world**
Vanilla is a spice which is used in baking, ice cream, chocolate, yoghurt and many other dishes and some cosmetics. Natural vanilla is increasingly seen as a premium product and a sign of affluence. As global population rises (over 7 billion today) and as living standards rise in the developing world, many more millions of people are consuming vanilla and seeking to buy natural vanilla.
- **Climate change**
It is believed that climate change has played a role in causing more volatile and lower yielding harvests. Weak yields were reported in Madagascar and marginal producers like Mexico in 2016. A hurricane also affected Madagascan crops in early 2017.
- **Intensive farming methods**
In Madagascar it has been reported that many producers are prioritizing volume over quality. Crops are harvested too early or are dried too quickly. This is partially to mitigate the risk of theft. Vacuum packing is also increasingly used for cost-effective storage which can affect the quality of the product if the vanilla is not fully dried. The result is less high quality natural vanilla.
- **Chinese demand**
China has emerged as a significant buyer of Madagascan vanilla. Chinese traders are



WWW.PRIMESTOX.COM
Funds 2 Food

TEL: +44 (0) 207 846 0153

ADDRESS:

1st Floor | 23 Princes Street
London | W1B 2LX

stationed in Madagascar. This leaves less available for Europe and America.

- **Time to produce & labour intensive**

A vanilla vine takes 3-5 years from planting to produce its first harvest. In addition, cultivation and processing is labour intensive and requires high levels of skill. In many developing countries the appetite for this kind of work, with long time horizons, is decreasing.

On the reverse side, we also present certain factors that could lead to a moderation of demand.

- **Synthetic vanilla**

At current prices producers for whom natural vanilla is not a core part of their brand identity may consider switching to synthetic flavouring. Demand destruction is therefore likely to be expected at the cheaper end of the market. This process may take time to play out and in the short term supply may continue to disappoint, however it should be considered in the medium-term.

- **Higher yields**

Although forecasts are for production to remain low in 2017 there is the possibility that yields in 2018 and beyond may recover.

Overall PrimeStox is of the view that for Premium Gourmet vanilla of 16-18cm length, the market is likely to remain extremely short for the foreseeable future: in 2017, 2018 and beyond. For the wider vanilla market however some moderation in price is possible as the price cycle normalises. However even this may not take effect before 2018.

Joseph Cherrez
CEO & Co-Founder
PrimeStox