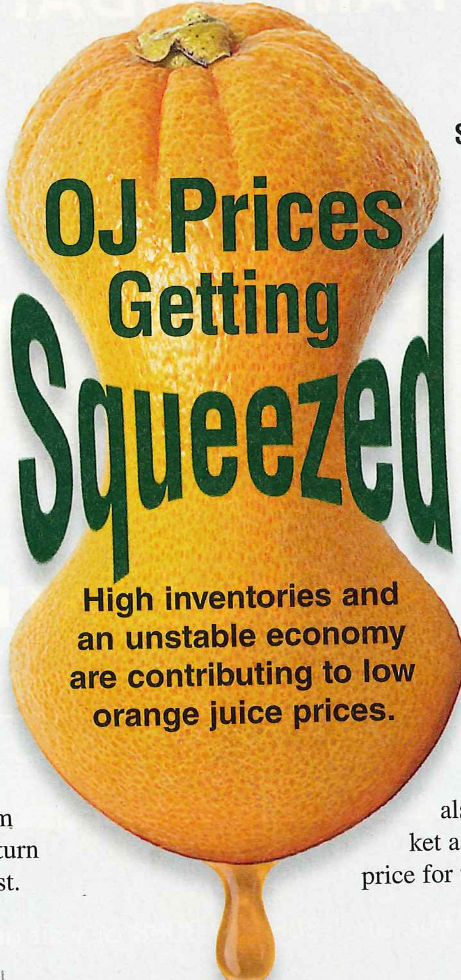
OJ Prices Getting Squeezed



High inventories and an unstable economy are contributing to low orange juice prices.

By Tom Spreen
tspreen@ufl.edu

News flash! Cold temperatures visit Florida, some freeze damage is reported to the state's citrus crop, and the futures market goes down. Another news item: In February, USDA releases a revised 2008–2009 orange crop forecast. The new crop forecast is 158 million (eight million boxes less than the October estimate), and the futures market remains unchanged.

A question asked by many growers is how can the futures market continue to ignore such news? In the past, even a hint of freeze damage has often resulted in a significant uptick in futures prices. There are two factors that continue to weigh on the FCOJ futures market: high juice inventories and the economic malaise resulting from issues in other financial markets. Let's turn our attention to the juice inventories first.

Surplus Supply

As I have noted in a past article, a substantial rise in retail OJ prices has curtailed U.S. OJ consumption. The Florida Department of Citrus estimated that in 2007–2008, total OJ movement (NFC, RECON, and retail FCOJ) was just under 1.1 billion SSE gallons, down from more than 1.5 billion SSE gallons in 2003–2004. Lower movement has resulted in an accumulation of inventories. As of the end of Jan. 2009, total OJ inventories were 646 million SSE gallons, an increase of 40% from a year earlier.

Economy Effects

The other factor is a little more complicated to explain. The orange juice futures market is characterized by sellers, primarily processors, but also growers themselves who use the market as a mechanism to guarantee a minimum price for their product. There are also buyers