A number of factors have figured into the rise of citrus futures.

By Thomas H. Spreen

As the 2010-2011 season begins to wind down, it is useful to take a look back and try to explain what transpired this year. In October, USDA presented its 2010-2011 citrus crop forecast, which projected 146 million boxes of oranges and 20 million boxes of grapefruit would be produced in Florida. With a smaller crop in Brazil already being harvested at that time, an orange crop of 146 million boxes was a bullish signal for prices. Both FCOJ futures prices and delivered-in prices had strengthened in the 2009-2010 season, and a relatively small orange crop set the stage for a further rise in prices.

The Speculation Effect

Beginning with the near record crop of 2003-2004 and the low prices associated with it, followed by the hurricane-affected years of 2004-2005 and 2005-2006 that were followed by the 129 million box crop of 2006-2007, prices rose rapidly with some growers receiving well in excess of $2.00 per pound sold in the 2006-2007 season. These higher prices were eventually passed onto consumers. Even though the Florida orange crop recovered somewhat in 2007-2008 and 2008-2009, retail prices remained high, and combined with the strong downturn in the overall U.S. economy, orange juice inventories began to accumulate, which helped drive grower prices down. As the economy stabilized, financial markets began to recover. The importance of this fact is that speculators returned to the futures market for orange juice. Speculators are important to the market, because they are the buyers of contracts that are sold by industry interests looking to lock in a price. The cold weather of January 2010 caused futures prices to spike even though the final tally for the 2009-2010 crop suggested that freeze damage was relatively minor.

With the relatively light crop of 146 million boxes forecasted for the present season, the stage was set for higher grower prices. A series of cold nights in December, however, drove futures prices up and grower prices as well. Preliminary average delivered-in prices for the early-mid crop were nearly $1.53 per pound solid, even though cash prices were higher. It appears the delivered-in price for Valencias could average close to $1.70 per pound solid with the cash market close to $2.00. These prices are well above the cost of production.

Fighting The Good Fight

Looking forward, juice inventories have declined, the overall economy continues to improve, albeit at a slow rate, so that with a modest crop of around 150 million boxes, prices should remain firm next season. In my opinion, the greatest threat facing the industry remains citrus greening or HLB. The industry should continue to support efforts to find solution(s) to mitigate the effects of the disease while continuing to support generic advertising programs to maintain demand for Florida orange juice and other Florida citrus products.

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