MARKET OUTLOOK – *APRIL 2011*

Dear All,

First of all, we want to express our highest respect and solidarity to Japan and in particular to all our clients and partners for the disgraces that hit their country in the month March 2011 and at the same time, we also want to express our highest respect and consideration to all the people and partners in the Maghreb countries suffering from the recent turmoil and the pain they are going through.

The major macro-economic- political facts, which guide consumption and prices:

- The droughts and adverse weather conditions of 2010, still carry on negative effects on several products for F&F produced in China, India & Brazil. The new crops will only start by April / May / June 2011.
- The Chinese economy is still booming with current year GDP April 2011 latest forecast fixed at 9,6%. India GDP forecast for 2011 has been recently reviewed to 8,2 % (from 8,7 %). Reduction forecast is based on the higher cost of oil, but still a huge increase of demand. South American economies are expanding rapidly and vigorously. In Brazil, the dominating regional economy, increased the middle class by 40 million people in 2010; its GDP this year will be close to 5,5 % and the country is reaching a level of employment of over 97 % !
- The continue rise in demand from emerging countries sharply forces the prices of the major world commodities upward, and has reached record high levels, setting new benchmarks for growers to be interested to plant feedstock products for F&F specialties. For your reference, these are the **last semester** price increases on some index and products: The commodities food prices index increased by 23% in the last semester; Sugar + 29.78 %; Palm oil (used in soap etc..) +41.10 % ; Cotton + 103.55%; Cocoa +20,73 %; Corn +42%; Soy +31%; Fertilizers +23%, Crude Oil +28%, Orange Juice + 26% .
- The geopolitical and macro economic consequences of such rises of key products, make us understand that inflation is already the new enemy, so far, today the ECB rose the interest rate as well as the bank of China and the bank of Brazil . Inflation is the new problem we will have to face in the next semester. The riots of the Maghreb are also to be considered, apart from political reasons, the signals of the claim for higher wealth and salaries to match the sharp rising cost of living. Inflation means as well the need of constant upward price adjustment.
- The Euro is over appreciated; at the time of writing this report at 1,43 against the USD with an appreciation of over 16 pct over the last 12 months. The depreciation the USD is having against all major currencies, continues to require adjustments by exporters. The European F&F business suffered a general decrease in demand, in the last term, as a consequence of the turmoil in the Maghreb.
- The Japan disaster has as well affected our industry. There is now a chronic lack of energy in the whole country, which generates discontinued production of several F&F specialties of Japanese origin. The situation has already provoked concerns over product availability, especially on Citral synthetic and its strategic derivatives for the F&F.
- Last but not least, the oil price rose consistently in the recent months due to the Maghreb political instability. This as well complicates the picture and raises concerns over rising costs, setting a possible break on the more fragile economies.

As a consequence of the above factors, in our opinion, a major part of our products will remain very short and prices tend to be firm, especially if referred in USD. Among the most difficult ones:

Turpentine and all its strategic F&F derivatives such as Dihydromircenol, Pinene, Camphor, Linalool, Linalyl Acetate, Isobornyl Acetate, Dipentene, Terpenyl Acetate, Terpineols MU, PG etc. continue to be very high compared to previous years, with consequences also on citrus D-Limonene and oil used as well by the resin industries. The current price of turpentine remains close to 4000 USD per ton against 900/ton of 2 years ago. Apart from adverse climatic conditions in 2010, the Chinese turpentine manufacturers witnessed the poison power of the cancellation of export tax rebates in 2007. As a consequence, the Chinese turpentine export volume will very likely keep on going down sharply during the next 5 years, whilst supply and demand play another factor influencing turpentine pricing. As the growing cost of human resources and other pressure coming from raw material cost and technology upgrading, the output shrunk from 2007 to 2009, at the same time the need for turpentine for the production of pharmaceuticals, perfumes and food additives etc., kept growing.

Chinese Essential Oils and derivatives: Eucalyptus, Eucalyptol, Star Aniseed Oil, Anethol, Citronella Oil (now at record high level), Litsea Cubeba Oil, Natural Citral, Lavender Oil (at record high level), Geranium Oil, Garlic Oil .

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Indonesian Essential Oils and derivatives: are improving somewhat, Clove Leaf Oil, Clove Leaf Oil Rectified, Clove Bud Oil, Clove Stem Oil, Eugenol, Iso-Eugenol, Eugenyl Acetate; still fairly priced : Patchouli Oil MD, Light & Dark; still difficult: Nutmeg Oil , Citronella Oil.

Benzene price has also had sensible upward movement in the last few months, due to the concern related to the reduced Japanese production capacity caused by the earthquake and the lack of energy hitting several Japanese manufacturers. As a consequence, its derivatives used in F&F may face upward price adjustment.

All Indian Mints and derivatives: Menthol, Mints of all kinds and types remain firm despite strong sentiment of possible decreases just before the next crop, being prices much more adjusted to USD devaluation or appreciation.

Brazilian Orange oil / Limonene / Orange Terpenes and all derivatives remain extremely short and price quite high. The new crop will be in July 2011, but beware as from May to September 2011 the shortage will be at its peak; the new crop price will be opening, to our view, quite above 7 USD / kg. ….Eucalyptus Citriodora is extremely short.

Lemon oil: current situation of demand and supply is balanced, market price at the time being stable.

Grapefruit oil: will be a problem of supply worldwide. Crops, in particular the Florida's, have been short.

Additionally, the aroma chemicals which have been affected by high prices and short supply: Carvacrol, L-Carvone, Aldehydes C-12 L, C-11, C-10, C-8, Gamma Nonalactone, Gamma Decalactone, Gamma Undecalactone, Cinnamic Aldehyde, Bacdanol, Linalyl Acetate, Linalool, Geraniol, Citral, Geranyl Acetate, Hydroxycitronellal, Citronellol, Natural Citral 96 and 92 % , Para-cresol , Anise Aldehyde.

Extremely short remain Aldheyde MDBC (Lilial), as well as Geranium Egypt, Blue Chamomile, Geranium China, Lavender oils all types .

All flavor and fragrances containing the above mentioned products will suffer of consistent price increases in the next semester , especially those related to pine and balsamic notes, orange and lemon notes, lavender notes, woody notes, clove, geranium and floral notes.

Moellhausen S.p.A. usually has all of the above specifically listed, as well as ca. 1650 other products in stock, in Europe or afloat and we invite our customers to contact our office for price and availability updates in order to secure material.

Kindly also refer to our website www.moellhausen.com.

Best regards

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MOELLHAUSEN S.p.A.