

The Nutmeg Conundrum

Why are nutmeg prices running counter to the rest of the essential oil market?

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A map of nutmeg growing regions; courtesy of Treatt plc

Over the past 12 months the essential oils industry has witnessed a general downward trend in pricing. There have been a few notable exceptions, one of which is nutmeg oil. The market for Indonesian nutmeg oil recently surpassed \$120/kg for four- to six-drum drum lots, representing a significant jump from the \$70/kg prices in the second quarter of 2011.

Growing Regions

Indonesia, Sri Lanka and India are the primary producers of nutmeg oil. Indonesian nutmeg oil, with a typical 8% myristicin content, accounts for approximately 80% of the 500 MT annual global production. Across the Indonesian islands, specific regions have traditionally been designated for the cultivation of nutmegs for the spice and essential oil markets (see map).

The Maluku and Banda islands, commonly referred to as the Spice Islands, primarily cultivate nutmegs for the spice industry, while regions including Java, Sumatra and Aceh mainly cultivate nutmegs for essential oil distillation. Nutmeg originating from Grenada is on the whole destined for the spice market, though the island is still suffering from the destruction caused by Hurricane Ivan in 2004.

There is little varietal difference between oil and spice grain nutmegs, but spice nutmegs are usually harvested after 10 months when they carry the most weight. The more immature nutmegs are favored for distillation as their essential oil content is higher (up to 14%). They are usually harvested when the seed is five to six months old.

Price Trend Drivers

In 2011, driven by a speculation-fueled market, the price of spice-grade nutmeg rocketed to more than \$17/kg (up from \$11/kg), while the market for the essential-oils grade remained at around \$6/kg. Consequently, many farmers refrained from harvesting the immature nutmegs, opting for the greater rewards to be achieved from selling the more mature spice grade. The shortage of immature nutmegs for oil distillation was the key catalyst in driving up the price.

Toward the end of June 2012, the spice market experienced a sharp fall with levels for spice grade nutmeg returning to around \$11/kg. It is anticipated that this fall could lead to an increase in the availability of immature nutmegs for oil distillation and a subsequent softening of the Indonesian nutmeg oil price.

What Next?

Although there is year-round distillation in Indonesia, there is a notable reduction in activity for the duration of the rainy season between September and February. With this in mind, it may not be until early 2013 that the market sees some downward correction from the current historical highs. Until then, it may prove prudent for flavor and fragrance houses to cover requirements on a hand-to-mouth basis.

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