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## Bug Bites Cut Florida Orange Crop to Lowest in 2 Decades

By Marvin G. Perez - Dec 26, 2013

A gnat-sized insect, the Asian citrus psyllid, forced Dean Mixon to replace about 1,000 orange trees in the past two years on the 50-acre [Florida](#) farm his grandfather started in the 1930s. The bug spreads a disease called citrus greening, causing fruit to shrink and drop early.

"This is the worst we ever had to deal with," said Mixon, 62. "Young trees can't develop strong roots, and the quality of the fruit is also affected. We have been able to slow the spread of the disease, but not eradicate it."

Florida, the world's largest orange grower after [Brazil](#), will harvest 121 million boxes of the fruit in the season that began Oct. 1, the fewest since 1990, the U.S. Department of Agriculture estimates. Orange-juice futures in [New York](#) will rally 18 percent to \$1.6465 a pound by the end of June, up from \$1.39 on Dec. 24, according to the average estimate of nine traders and analysts surveyed by [Bloomberg News](#).

Futures entered a [bull market](#) this month as dry weather compounds the damage from citrus greening. Some types of oranges, including early and mid-season varieties, are projected to drop prematurely from trees at the highest level since 1961, the USDA said Dec. 10. The shrinking crop may boost costs for companies including [Pepsico Inc. \(PEP\)](#), the maker of Tropicana juices, and Coca Cola Co., which sells Minute Maid and Simply Orange brands. U.S. consumers spend about \$1.45 billion on the juice annually.

### 'Uncharted Territory'

"We're in uncharted territory," said John Ortelle, who has been following the industry for more than 30 years and is vice president for McKeany-Flavell, an Oakland-California based broker whose clients have included Dole Food Co. and Kraft Foods Group. "Whatever producers have tried to tackle the disease has had a minimal effect

so far. Growers took out trees and added extra nutrients. You just don't know when and if the effects will be positive."

Orange juice rose 18 percent this year on ICE Futures U.S. in New York, trailing only natural gas and cocoa among the 19 raw materials tracked by the Thomson Reuters/Jefferies CRB Index, which declined 4.1 percent. The MSCI All-Country World Index of equities rose 19 percent, while the Bloomberg Treasury Bond Index fell 3.2 percent. The Bloomberg [Dollar Index](#), a gauge against 10 major trading partners, rose 3.8 percent.

Growing areas in Florida received as little as 2 inches (5.1 centimeters) of rain from Oct. 1 through Dec. 22, according to Kyle Tapley, a meteorologist with MDA Weather Services in Gaithersburg, [Maryland](#). That compares with the 30-year average of as much as 8 inches. About 28 percent of the state is experiencing "abnormally dry" weather, according to the U.S. Drought Monitor.

## Smaller Fruit

Last season, the USDA cut its production outlook seven times over eight months as drought compounded damage from greening. Smaller fruit size may mean that the final count for this year's crop will total 115 million boxes, or 5 percent less than the government estimates, said Jerry G. Neff, a branch manager for Bradenton, Florida-based Allendale Risk Management Inc. who was the most-accurate forecaster in a Bloomberg survey before the USDA's Dec. 10 report. A box weighs 90 pounds (40.8 kilograms).

Greening has discouraged growers from increasing production as new trees must be sown in greenhouses rather than outdoors to avoid further contagion, doubling the cost of planting to about \$8 a tree, according to Tom Sreen, a retired University of Florida professor and an industry consultant. The area planted with orange groves will total 459,311 acres this year, the lowest since at least 1978, when the government data begins. The USDA survey was conducted every two years until 2009, when it became annual.

## Consumer Demand

Acreage declines have also been spurred by increases in housing development and urban sprawl, said Mixon, whose 50-acre farm in Bradenton, Florida, is down from

350 acres in 2006.

Slowing U.S. consumption may cap price gains for futures, according to Judy Ganes-Chase, the president of J. Ganes Consulting in [Panama](#) City, Panama. U.S. retail prices for frozen, concentrated [orange juice](#) reached \$4.7026 a pound by the end of November, down 5.9 percent from a year earlier. The cost is up 28 percent from a decade ago, threatening consumer demand, Ganes said.

Since Oct. 1, retailers sold 82.39 million gallons as of Nov. 23, down 6.7 percent from a year earlier, the Florida Department of Citrus estimated on Dec. 9, citing data from Nielsen Co. U.S. inventories of frozen orange juice totaled 732.47 million pounds on Nov. 30, up 22 percent from a year earlier, government data show.

## Cutting Calories

Some consumers are looking for lower-calorie options, said Ross Colbert, a global beverage-strategist at Rabobank International in New York who's been studying the industry for more than 10 years. U.S. per-capita consumption fell to 3 gallons in 2012 from 4 gallons in 2008 and 5.5 gallons in 2000, Colbert said. An 8-ounce serving of orange juice has about 110 calories, according to the government. In the past 10 years, water consumption has increased the most among all beverages, he said.

Production of oranges in Brazil will climb 8.5 percent to 435 million [boxes](#) in the 12 months ending June 30, 2014, from a year earlier, and juice output will jump 18 percent, the USDA's Foreign Agricultural Service said in report Dec. 16. Yields will rise 12 percent.

"Brazil could take care of any shortfall we may have in production," said [James Cordier](#), founder of Optionsellers.com in Tampa, Florida. "While the U.S. crop is the smallest we've seen in many years, sales at the retail level are still sluggish."

## Hedge Funds

[Hedge funds](#) and other large speculators are increasing bets on a price rally. As of Dec. 17, money managers raised their net-long [position](#) by 11 percent from a week earlier to 2,652 futures and options, Commodity Futures Trading Commission data show. That's the highest in three months.

First found in Florida in 1998, the Asian psyllid thrived on the state's temperate

climate and sap collected from foliage as it spread the bacterial-disease to all 32 counties that produce oranges commercially. Greening has cost the state's economy \$4.5 billion in lost revenue and eliminated 8,200 jobs amid spending cuts since being discovered in 2005, according to the Citrus Research and Development Foundation.

The USDA said Dec. 12 it was providing \$1 million for research projects aimed at combating the disease. An additional \$9 million has been spent through a government research program for specialty crops. More funds may be allocated in a new farm bill currently being negotiated by lawmakers.

## **500,000 Trees**

Rick Kress, the president of Clewiston, Florida-based Southern Gardens Citrus, has replaced about 500,000 trees since 2005 because of psyllid infestation and greening. The company has about 1.8 million trees planted on more than 16,500 acres, and can process as much as 20 million boxes of oranges per season, according to its website.

Mixon, the Florida grower, has tried fighting the insect with pesticide and increasing fertilizer use to strengthen trees. Groves have also been damaged by other crop diseases including citrus canker, which causes leaves and fruit to drop prematurely, he said.

"We use pesticide, but the problem is that if it rains, it can be washed off, or if you don't catch the psyllid at the right time, it becomes ineffective," Mixon said. "If you use too much pesticide, you can actually burn the fruit, which can then become useless for fresh fruit or juice."

The risk of frost in coming months may further threaten Florida's crop, while U.S. demand increases seasonally as consumers drink more to boost their vitamin C intake and guard against influenza, said Fain Shaffer, the president of Infinity Trading Corp. in Indianapolis.

## **Brazil Stockpiles**

While output is forecast to increase in Brazil, the country's stockpiles are heading for a three-year low, the USDA's [Foreign Agricultural Service estimated](#) on Dec. 16. At the end of June 2014, inventories will drop to 93,000 metric tons, down from 205,000 a year earlier and 474,000 tons in 2012, according to the report.

Total output of frozen concentrate in the 12 months that ended in June 2013 fell 23 percent in Brazil because of lower availability for fruit processing and low industrial yields, the USDA said. Crop diseases including greening are boosting production costs in the South American country, prompting some farmers to switch to crops including sugarcane and rubber, according to [Conab](#), the government crop-forecasting agency.

Reduced imports from Brazil may shrink U.S. [inventories](#) that, while up from 2012, are 49 percent smaller on average this year than a decade ago, government data show.

"We're in a serious supply problem," said [Shawn Hackett](#), the president of Hackett Advisors Inc. in [Boynton Beach](#), Florida. "Citrus greening is a structural problem, and Brazil is having its own issues. There's no way to turn this around. Prices are going to go higher."

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