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Report Name: Coffee Annual

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Post: Hanoi

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Report Highlights:

Post forecasts Vietnam's marketing year 2020/2021 (MY20/21) coffee production at 30.2 million bags, down 3.5 percent from the previous year, due to unfavorable weather conditions. Post revised estimates of MY19/20 bean exports down to 23.5 million bags, lower than the USDA official number, due to competition from foreign markets. Post forecasts MY19/20 and MY20/21 ending stocks up on low prices in MY19/20 and the resulting high carryover.

Executive Summary:

Numerous factors are affecting Vietnam's coffee sector this year. Weather data confirmed lower rainfall and higher than average temperatures in Vietnam's main coffee growing areas, triggering concerns of reduced production on lower yields. COVID-19 has affected global trade with significant disruptions in logistics and demand. Finally, Vietnam Robusta is facing strong competition from Brazilian Conilon and Robusta from other countries, leading to lower exports. Farm-gate prices decreased to their lowest levels in recent years, creating high ending stocks.

Commodities:

Coffee, Green

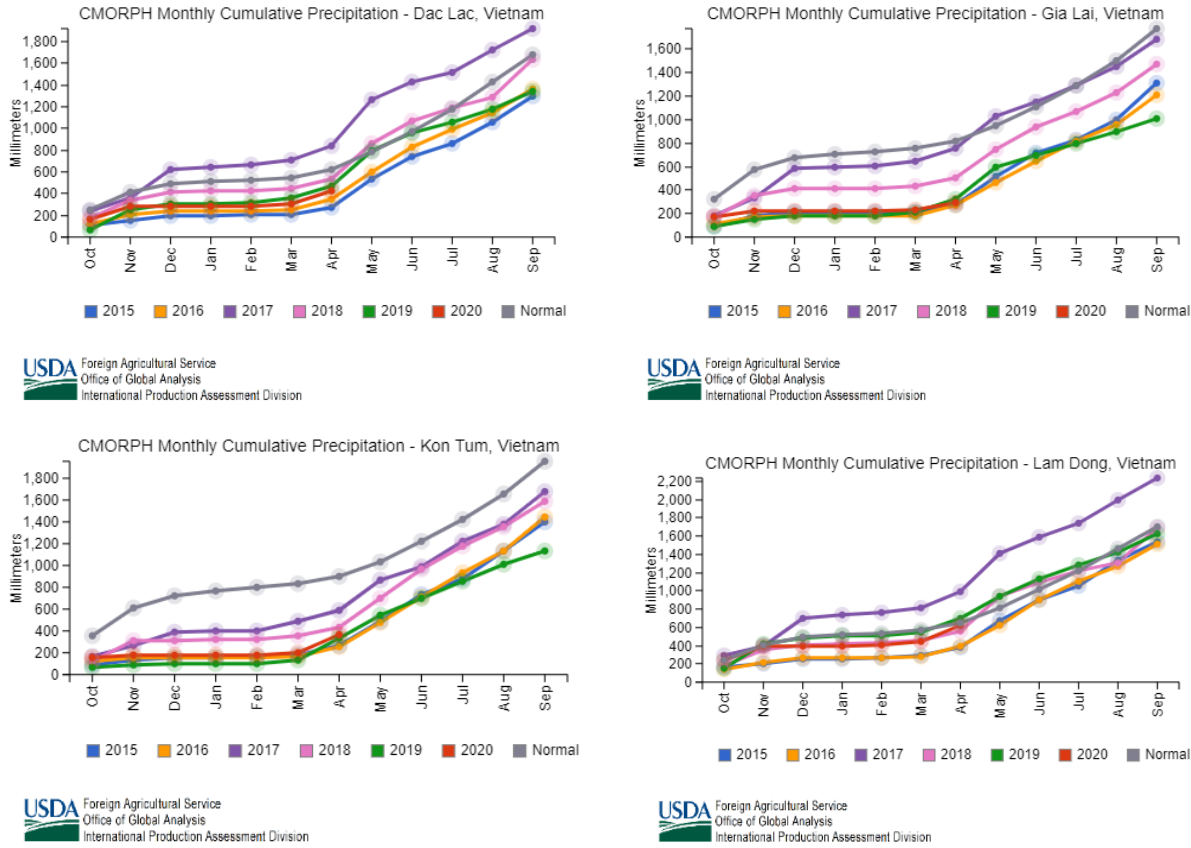
Production

Vietnam's MY19/20 harvest began in October 2019 and ended in January 2020. Post revised MY19/20 production down to 31.3 million bags, lower than the USDA official number, but three percent higher than the previous year.

According to Vietnam's Ministry of Agriculture and Rural Development (MARD), the total coffee re-plantation and grafting area in the Central Highlands over the past five years reached 118,000 hectares (HA), mainly in Lam Dong and Dak Nong Provinces. (Note: MARD had originally planned for 120,000HA.) From now until 2025, MARD plans to expand the re-planted and grafted area by 30,000 to 40,000HA to replace old trees and improve yields. Evidentially, declining area and production in Dak Lak, the largest plantation province, was offset by progress in Lam Dong and Dak Nong Provinces. MARD's policy is to maintain coffee cultivation in the Central Highlands steady at approximately 600,000HA and switch to other crops where conditions are not favorable for coffee cultivation. Therefore, coffee farmers in some areas are reportedly switching to more profitable fruit crops such as durian, avocado, mango. Traditionally, pepper was a preferred substitute when coffee prices decreased, but pepper prices are unstable and recently falling to a five-year low.

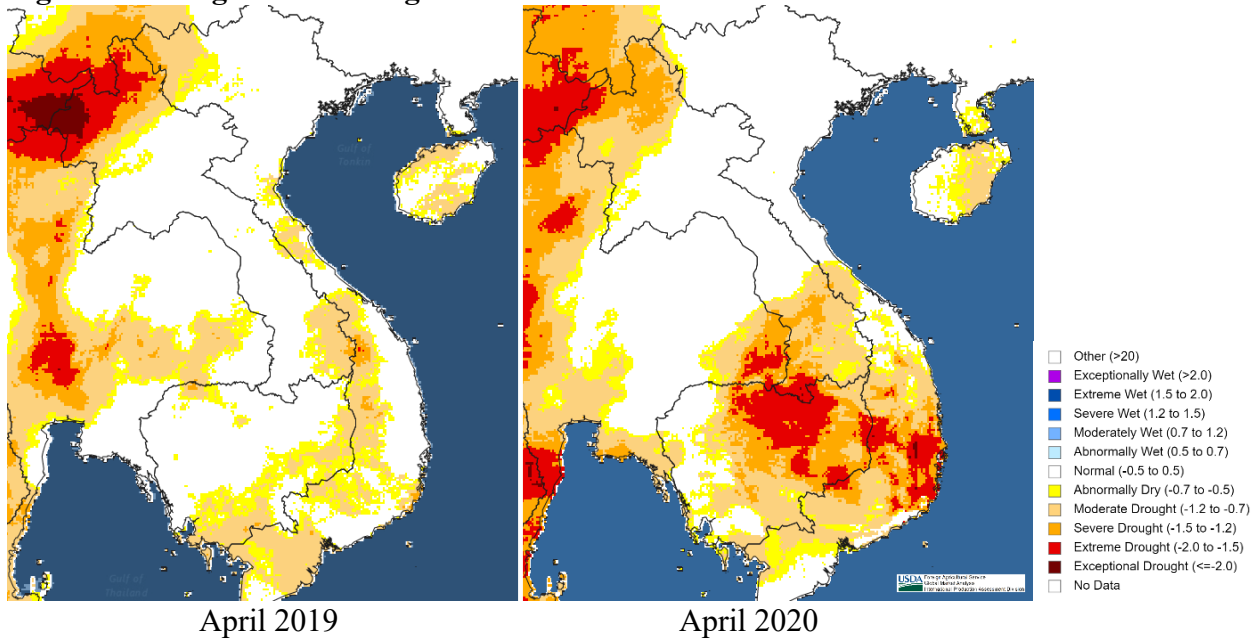
In MY20/21, Post forecasts production down to 30.2 million bags due to unfavorable weather conditions that could affect yields. Data confirms dry weather with lower rainfall in the main growing areas of Dak Lak, Dak Nong, and Kon Tum Provinces (Figure 1 and 2). According to the Vietnam Meteorology and Hydrology Administration, during the first five months of calendar year 2020, temperatures in the Central Highlands were 0.5-1.5 degrees Celsius above average, while cumulative rainfall was 15-30 percent lower than average. The Mekong River Commission also forecasted moderate to extreme droughts in the Central Highlands from mid-March to May, documenting relatively low rainfall. February to May are normally dry months and coffee requires irrigation to ensure proper blossom and cherry setting. However, low prices, especially in recent months, might discourage coffee growers from spending on irrigation, potentially reducing coffee yields in MY20/21. Nevertheless, rainfall levels may improve in the second half of the year, increasing yields.

Figure 1: Monthly Cumulative Precipitation in the Main Coffee Growing Provinces



Source: USDA/GADAS

Figure 2: Drought Monitoring in Vietnam



Source: USDA/GADAS

Robusta Production

As noted above, the contraction in the cultivation area in the Dak Lak province was fully offset by the expansion in other provinces, including Lam Dong and Dak Nong, leading to a net expansion in Robusta cultivation area in MY19/20. This expansion carried over to MY20/21. However, despite this stable cultivation area, Post forecasts that yields may still be affected by unfavorable weather conditions, leading to lower MY20/21 production at 29.2 million bags.

Table 1: Robusta Coffee Production by Marketing Year (Oct.-Sept.) (green bean)

	MY18/19	MY19/20 Estimate	MY20/21 Forecast
Marketing year begins	Oct. 2018	Oct. 2019	Oct. 2020
Cultivation area (hectare)	607,000	620,000	620,000
Production (thousand bags)	29,350	30,200	29,170
Average yield (MT/ha)	2.90	2.92	2.82

Source: Post estimates

Arabica Production

Arabica production accounts for 3 to 4 percent of Vietnam's total coffee production. It is mainly grown in elevations above 1,000 meters in remote mountainous areas with ethnic minority populations. Considering relative inaccessibility and difficulties with transportation, warehousing, and processing, cultivation expansion remains limited in these regions. Coupled with unfavorable weather conditions, Post forecasts Arabica production in MY20/21 at slightly over 1.0 million bags, lower than the previous year.

Consumption

Industry forecasts that domestic consumption accounts for approximately 10 percent of total coffee production. Post revised its domestic consumption estimates in MY19/20 up to 3.1 million bags, higher than the USDA official number. The growth in both international and locally owned coffee shops, cafes, and vendors, is the main driver of the sustained increase in domestic consumption. In addition, instant coffee has gradually increased in popularity due to its convenience, capturing more local consumption.

COVID-19 has had a significant impact on Vietnam's entire food and beverage (F&B) sector in the past two months. Under the Government of Vietnam's (GVN) Directive 16, the Prime Minister ordered a 15-day nationwide social distancing policy, beginning on April 1, which was later extended to April 23, limiting F&B operations, including restaurants and cafes. Many F&B establishments physically closed during the social distancing period, with a limited number of businesses switching to online ordering and delivery.

COVID-19 also had a significant effect on consumer buying patterns. Before the GVN implemented social distancing, consumers stockpiled processed and packaged food and beverage products. During the social distancing period, consumers switched from out-of-home to in-home consumption. While the increase of in-home consumption did not fully offset the loss of out-of-home consumption, it benefited packaged products, such as ground and instant coffee. Since the GVN lifted its social distancing requirements, consumers have been slow to reduce their household stocks. Some F&B businesses may

face permanent closure or reductions, with others reopening in gradual phases. The Vietnamese Prime Minister recently proposed reducing the country’s 2020 gross domestic product (GDP) growth rate target from 6.8 percent to 4.5-5.4 percent due to COVID-19. This potential slowdown may lead to increased cost-saving measures by consumers, such as preferring cheaper alternatives to high-end coffee products.

As a result of these ongoing uncertainties, Post forecasts a minimal increase in domestic consumption in the MY20/21 to 3.2 million bags.

Trade

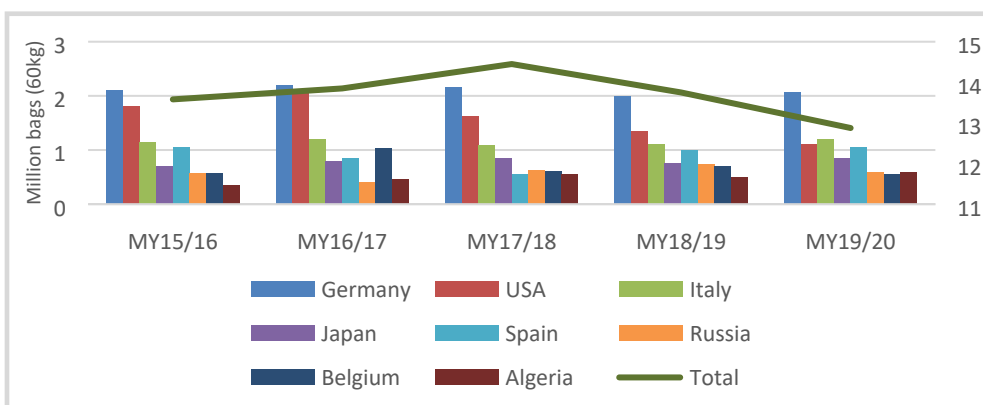
Exports

COVID-19 has affected global trade flows for coffee, disrupting logistics and affecting demand following widespread lockdowns in many countries. Despite the gradual easing of social distancing requirements in many parts of the world, COVID-19’s impacts on trade may continue until the end of June. Similarly, although industry expects global coffee consumption to revive post-social distancing, demand will require time to return to pre-pandemic levels. Many researchers cited the International Monetary Fund’s forecast of a 3 percent drop in global GDP in 2020 and the International Coffee Organization’s study of the correlation between GDP growth and coffee consumption.

Post revised its MY19/20 export estimates down to 26.3 million bags, lower than the USDA official number. High differentials of Vietnamese Robusta prices in the futures market diverted exports opportunities to Brazilian Conilon and Robusta from other sources, such as Indonesia. Traders also noted that the ongoing currency depreciation in Brazil and pressure to sell the coming crop have pushed Brazilian farmers to de-stock quickly. According to some research cited by local industry, Conilon, which was only used in certain blends in the United States and other small niche markets, has recently found new markets. This included first-time importers such as Spain, Russia, and some African countries. Sources note that Indonesia currency’s depreciation also made their Robusta beans cheaper than Vietnam’s.

Exports of Vietnamese coffee in the first six months of the MY19/20 saw a 6 to 7 percent contraction from the previous year, to 12.8 million bags (Figure 3). Germany, the United States, and Italy continued to be the largest import markets.

Figure 3: Coffee Exports to Major Destinations in the First Half of the Marketing Year



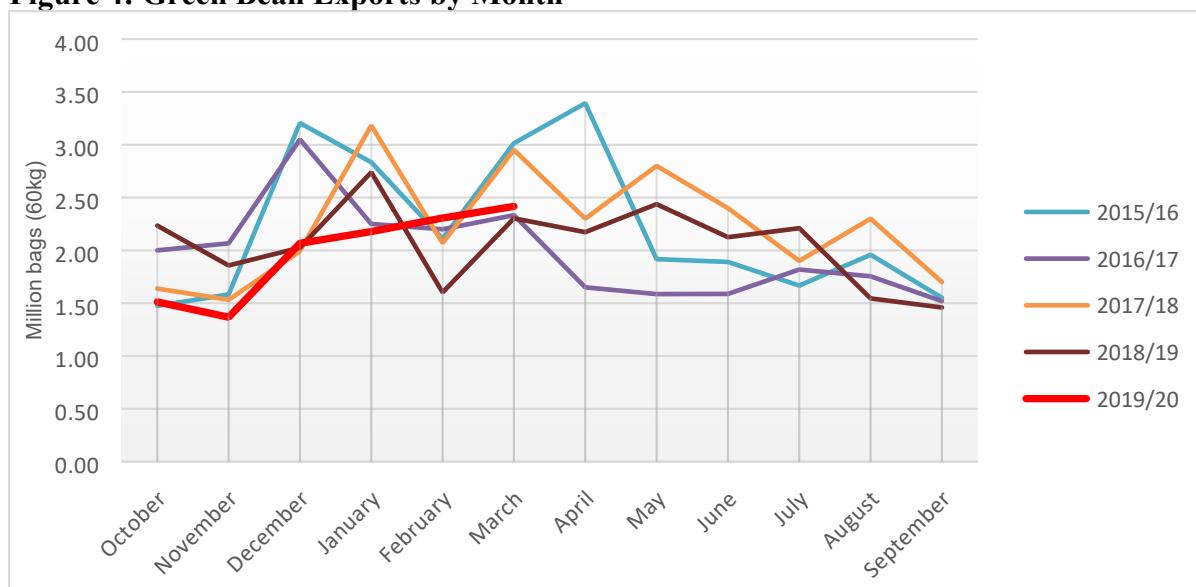
Source: Customs, Trade, Post Calculations

As mentioned in the Consumption section, COVID-19 has spurred changes in global coffee consumption patterns, most notably causing a temporary switch from out-of-home to in-home consumption. Higher quality blends with higher Arabica contents are normally served in coffee shops, while packaged coffee designed for in-home consumption is generally of lower quality, with a higher ratio of Robusta. This trend may continue post-COVID as global economic uncertainty may affect disposable incomes, causing consumers to move away from more expensive, high quality coffee products. Consequently, Arabica could lose market share to Robusta in the short to mid-term. Therefore, Post forecasts MY20/21 exports to rebound slightly to 26.9 million bags on the assumption of higher demand for Robusta and improving prices.

Green Bean Exports

Post revised MY19/20 green bean export estimates down to 23.5 million bags, as Vietnamese Robusta’s position has become less competitive (Figure 4). Green bean exports in the first six months of MY19/20 declined by 7 percent from the previous year to 11.9 million bags. For MY20/21, Post forecasts green bean exports to slightly rebound to 24.0 million bags.

Figure 4: Green Bean Exports by Month



Source: Trade, Post calculations

Soluble and Roasted Exports

Post forecasts growth in soluble and roasted coffee exports at approximately 5 percent year-on-year. The instant coffee market is reducing its reliance on bulk exports which have faced unstable prices in recent years.

Imports

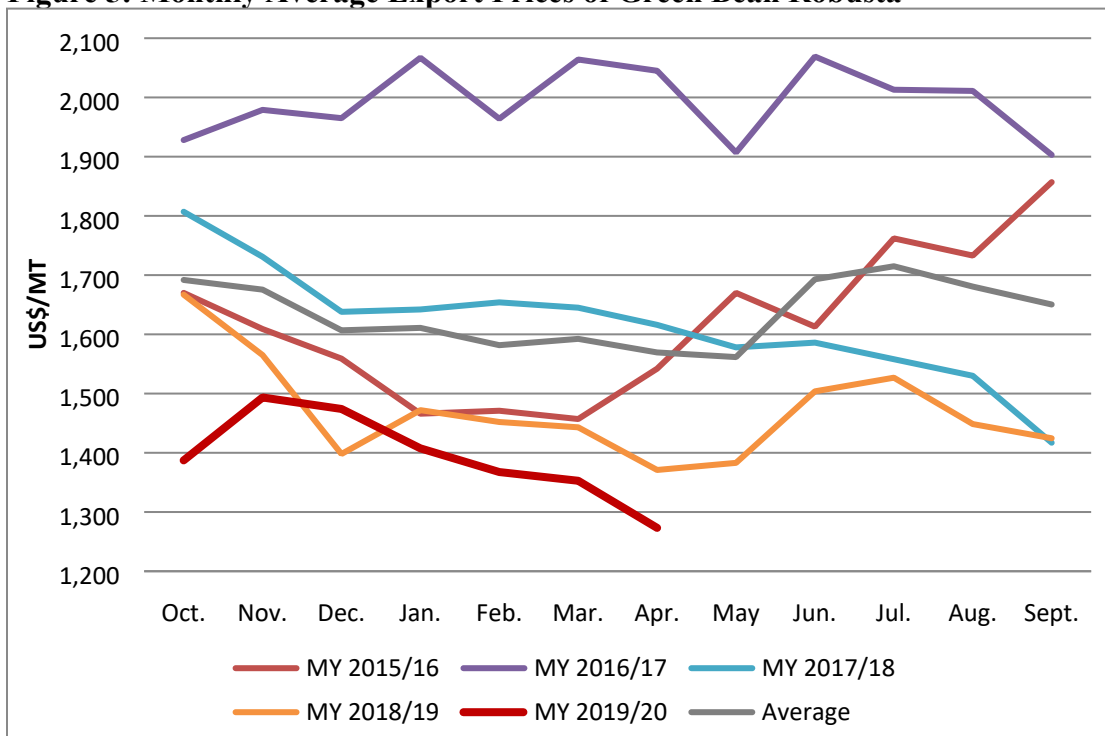
Vietnam continues to import small quantities of coffee beans, both green and roasted, and instant coffee from Laos, Indonesia, Brazil, and the United States to serve its growing high-end coffee retail chains. However, Post revised its MY19/20 import estimates down to 0.7 million bags, lower than the USDA official number, due to impacts of COVID-19, and forecasts stagnant growth in MY20/21.

Price

Export Prices

In the past two years, monthly export prices of common ungraded Robusta green bean (FOB HCMC) decreased to a multi-year low, most significantly from January to April 2020 (Figure 5). Industry stated that the depreciation of the Brazilian real made their coffee comparatively cheaper and affected the global futures market. As the supply of Robusta in Brazil, Vietnam, and Indonesia might tighten in MY20/21 due to smaller off-cycle crops and unfavorable weather conditions and Robusta demand might grow, Robusta prices may rebound in the coming months.

Figure 5: Monthly Average Export Prices of Green Bean Robusta

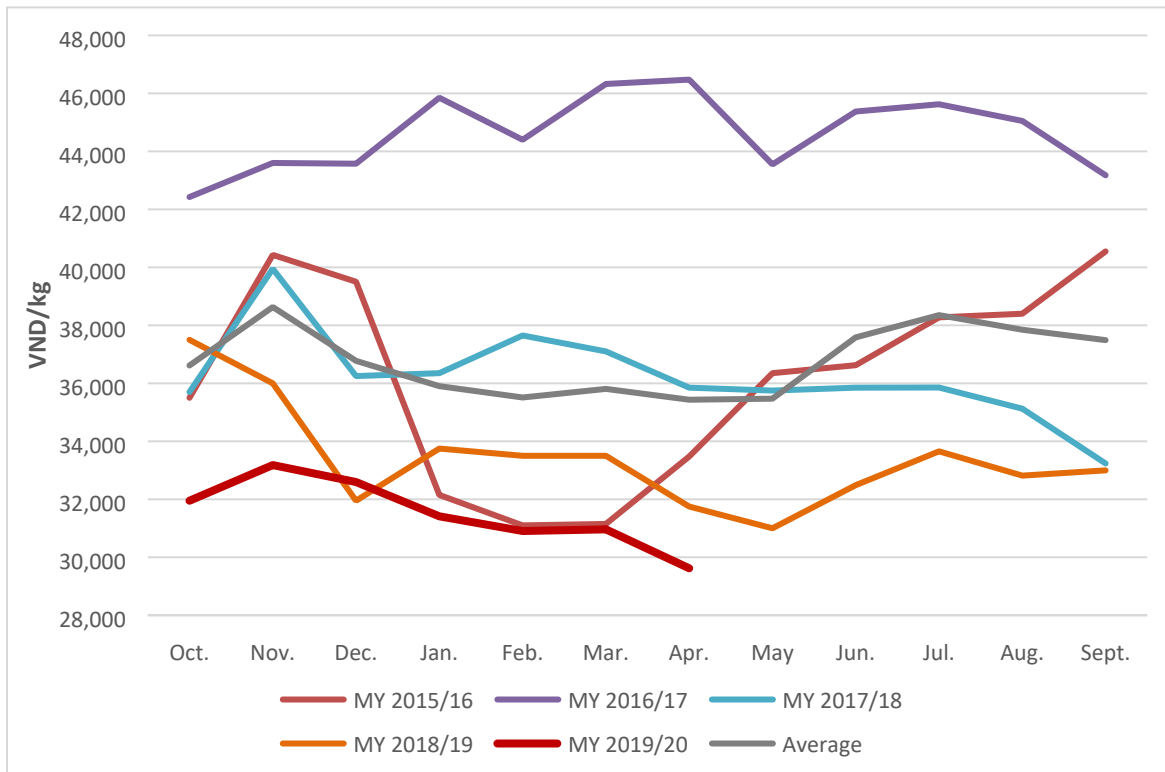


Source: Trade

Domestic Prices

The decline in domestic prices mirrored that of export prices, which discouraged Vietnamese farmers from selling (Figure 6). Some sources said that farmers were expecting farm-gate prices at over 32,000VND/kg, but prices fell to below 30,000VND/kg in April.

Figure 6: Local Prices of Robusta Beans



Source: Trade

Stocks

According to industry, Vietnam is sitting on high stocks, including those at bonded warehouses and warehouses of traders, exporters, collectors, and farmers. As noted in the Price section, low farm-gate prices have discouraged farmers from selling beans, resulting in traders and exporters' difficulties in buying beans for export. In addition, Vietnam has lost export opportunities to Brazil and other countries, leading to lower exports in MY19/20 and, consequently, higher stocks. Post revised MY19/20 stocks up to 4.6 million bags, higher than the USDA official number, and forecasts MY20/21 stocks at 5.5 million bags on high carry-over.

Vietnam's Coffee Production, Supply, and Distribution (PSD)

Coffee, Green	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	763	763	1983	1983	0	4583
Arabica Production	1050	1064	1120	1100	0	1033
Robusta Production	29350	29336	31105	30200	0	29167
Other Production	0	0	0	0	0	0
Total Production	30400	30400	32225	31300	0	30200
Bean Imports	500	500	500	300	0	300
Roast & Ground Imports	500	500	500	300	0	300
Soluble Imports	160	160	160	100	0	100
Total Imports	1160	1160	1160	700	0	700
Total Supply	32323	32323	35368	33983	0	35483
Bean Exports	24700	24700	25500	23500	0	24000
Rst-Grnd Exp.	550	550	550	550	0	550
Soluble Exports	2150	2150	2200	2250	0	2300
Total Exports	27400	27400	28250	26300	0	26850
Rst,Ground Dom. Consum	2550	2550	2600	2600	0	2650
Soluble Dom. Cons.	390	390	400	500	0	550
Domestic Consumption	2940	2940	3000	3100	0	3200
Ending Stocks	1983	1983	4118	4583	0	5433
Total Distribution	32323	32323	35368	33983	0	35483
Exportable Production	27460	27460	29225	28200	0	27000

(1000HA, 1000 60KG BAGS)

Attachments:

No Attachments