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Report Highlights:

FAS/ Nairobi forecasts a stagnation in Kenya's coffee production in marketing year (MY) 2020/2021, due to weather patterns that have curtailed flowering in the key coffee growing regions. The government of Kenya (GOK) has, with the support of its development partners, initiated new programs to revamp the sector. Increasing yields, modernization of processing plants, and streamlining of governance in marketing cooperatives, remain crucial to the recovery of Kenya's once key export commodity sector. Coronavirus (Covid-19) pandemic is expected to disrupt both local consumption, and exports.

Coffee production expected to stagnate

FAS/Nairobi forecasts that Kenya’s coffee production will stagnate at about 650 thousand bags, in MY 2020/2021 due sub-optimal flowering of coffee trees in key coffee growing regions, due to intermittent rains, during the just-ended January – April period. The weather setback happened in the backdrop of a significant scale-down of crop husbandry by coffee farmers due to low returns. In the meantime, GOK, supported by the World Bank, has initiated a new program, “the Coffee Revitalization Program” to rejuvenate Kenya’s coffee sector in eight counties. Some of the proposed interventions under the program include: production intensification in existing plantations, modernizing of processing facilities, and strengthening of producer organizations. The total coffee area has largely stagnated, as efforts to promote new plantings, in non-traditional coffee growing areas are countered by replacement with other enterprises, especially real estate development in the peri-urban areas.

Kenya’s Capital Markets Authority to regulate the Nairobi Coffee Exchange

Under regulations that were published in February 2020, the Nairobi Coffee Exchange (NCE) - Kenya’s 86 years-old coffee spot market, will come under the supervision of the Capital Markets Authority (CMA), at the start of new coffee marketing year (MY 2020/2021). The move will effectively remove the weekly coffee auctions from the purview of the Agriculture and Food Authority (AFA). How this pans out is currently unclear, although some sections of the coffee industry have expressed reservations about this new role for CMA, given that NCE does not trade in commodity futures or in commodity-linked financial derivatives. The low volumes of coffee traded at NCE, could also become a deterrent towards the development of an exchange in the sense that would be useful for the engagement of CMA.

Covid-19 to setback coffee consumption growth

Over the last decade, coffee drinking culture has been taking root in Kenya – especially in urban areas. This is evidenced by the numerous, well-patronized coffee houses that have sprang-up across the country, in malls and other shopping areas. The Kenyan youth are particularly keen on coffee preparation skills, and several coffee trading firms have set up training facilities to respond to this need. The onset of Covid-19 pandemic, and the follow-on containment measures, by the government has disrupted the coffee consumption growth trajectory. The closure of hotels, restaurants, coffee houses, and other eateries has hit hard the nascent coffee drinking culture. While the post-Covid-19 environment is difficult to completely determine, FAS/Nairobi forecast a quick recovery of coffee consumption in MY 2020/2021, to reach sixty thousand bags- about ninety percent of pre-Covid-19 levels.

Production, Supply, and Distribution (PSD) table

Coffee, Green	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Kenya	USDA	New Post	USDA	New Post	USDA	New Post

	Official		Official		Official	
Area Planted	112	112	0	112		112
Area Harvested	112	112	0	112		112
Bearing Trees	178	178	0	178		178
Non-Bearing Trees	0	0	0	0		0
Total Tree Population	178	178	0	178		178
Beginning Stocks	130	130	55	55		30
Arabica Production	775	775	775	650		650
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	775	775	775	650		650
Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	30	30	35	30		35
Total Imports	30	30	35	30		35
Total Supply	935	935	865	735		715
Bean Exports	815	815	750	650		620
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	815	815	750	650		620
Rst,Ground Dom. Consum	35	35	40	30		35
Soluble Dom. Cons.	30	30	35	25		25
Domestic Consumption	65	65	75	55		60

Ending Stocks	55	55	40	30		35
Total Distribution	935	935	865	735		715
(1000 HA), (MILLION TREES), (1000 60 KG BAGS)						

GOK sets up a new cherry advance program

In January 2020, the GOK set-up a Ksh 2.7 billion (about \$26 million) program; “the Coffee Cherry Advance Revolving Fund”, that is, among other activities, expected to advance working capital to farmers, collateralized on their coffee deliveries to their respective cooperatives. The fund is being run by the New Kenya Planters Co-operative Union (New KPCU), an offshoot of a coffee farmers’ organization that has been moribund for over a decade. The initiative has received mixed reactions from the coffee industry, including a petitioned court injunction by a section of farmers, who have argued that the program should have been administered by the Commodities Fund, a government entity that has the mandate to fund key commodity sectors, including coffee.

The cherry advance program also comes on the heels of the collapsed “cash-on-delivery model” that was piloted in MY 2017/2018 in selected coffee co-operatives. The collapse was largely attributed to low farm yields, high coffee price volatility, and the lack of a tight-proof mechanism to guarantee full recovery of advances.

Concern of loss of specialty markets due Covid-19 abound

Although Kenya accounts for less than one percent of world’s coffee production, its coffee is sold widely in specialty outlets and is also used for blending. As the Covid-19 pandemic evolves, Kenyan coffee industry stakeholders are concerned that containment measures in destination markets, may disrupt already established specialty export markets. In addition, Kenya is the main coffee logistics hub for Eastern Africa, and the disruption of trucking and shipping operations by Covid-19 will inevitably adversely affect coffee trading positions moving forward. Normal trading activities may, however, resume for most of MY 2020/2021, if the pandemic is largely contained before the end of 2020.

Kenya’s coffee exports to India on the increase

In the last couple of years, Kenya’s coffee exports to India have significantly increased to a market share of 21.5%, while exports to European Union (pre-Brexit) and United States have been relatively steady. Other key destinations for Kenya coffee are South Korea, and Switzerland.

Leading export destinations for Kenya coffee

Export Destination	Unit	October - September			Market Share (%)		
		2017	2018	2019	2017	2018	2019
EU 28 External Trade	T	24,233	21,430	24,167	52.59	43.68	40.81
India	T	848	6,500	12,706	1.84	13.25	21.45
United States Consumption	T	8,627	6,513	6,974	18.72	13.28	11.78
South Korea	T	2,963	4,633	3,854	6.43	9.44	6.51
Switzerland	T	2,832	2,290	3,331	6.15	4.67	5.62

Source: Trade Data Monitor

Ending stocks to remain low

FAS/Nairobi forecasts a modest increase in ending stocks, estimated at thirty-five thousand bags, due to lower exports in MY 2020/2021, and depressed domestic consumption. In Kenya, coffee stocks are held by the millers, marketing agents, and exporters. Individual large-scale farmers and co-operatives also hold stocks in the form of parchment coffee.

Attachments:

No Attachments