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Report Name: Coffee Semi-annual

Country: Vietnam

Post: Hanoi

Report Category: Coffee

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Report Highlights:

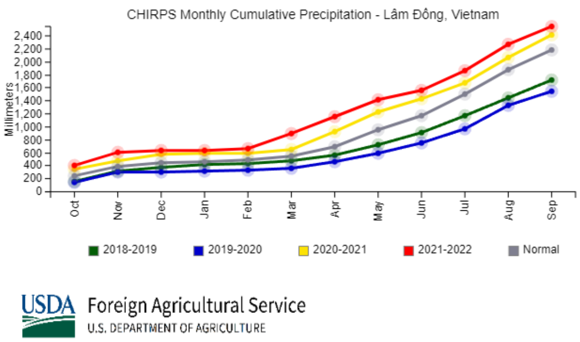
Post revises its estimate of Vietnam marketing year 2022/2023 (MY 2022/23) coffee production down to 30.22 million bags, green bean equivalent (GBE), due to lower yields, despite abundant rainfall that supported the flowering and cherry setting stages. Post revises MY 2021/22 coffee exports up to 27.70 million bags, driven by increasing demand and improved logistics. Widening gaps in prices of Arabica versus Robusta, as well as Vietnam Robusta versus other sources, will support exports of the new crop. Post revises its estimate of MY 2022/23 coffee exports up to 27.65 million bags.

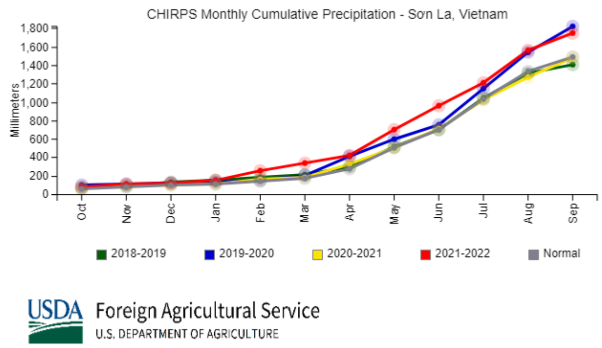
Commodities:
Coffee, Green

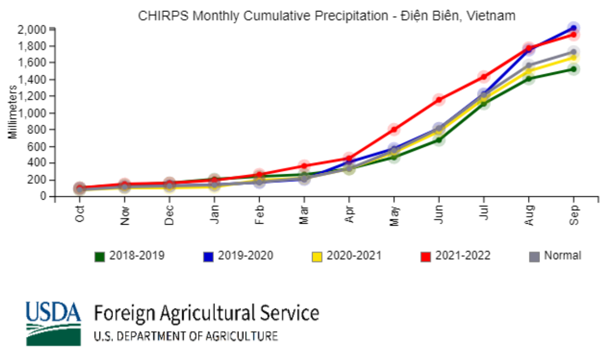
PRODUCTION

All coffee producers and traders reported higher than average precipitation that supported irrigation for the MY 2022/23 coffee crop. The Global Agricultural and Disaster Assessment System (GADAS) also confirmed these observations (Figure 1).

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







Source: USDA Global Agricultural and Disaster Assessment System

GADAS's data reported that monthly rainfall in most Vietnam coffee growing provinces was higher than normal in January-July 2022, benefiting the coffee flower blossom and cherry setting. Coffee traders noted that harvest of the MY 2022/23 crop started one to two weeks earlier than the previous crop, especially in Gia Lai, Kon Tum, and Dak Nong which had higher ripening ratios. Although weather has been relatively favorable for crop development, forecasts of higher-than-average precipitation during the harvest season and a prolonged rainy season have raised concerns that wet weather could negatively affect coffee picking and drying in the Central Highlands. According to the Vietnam Meteorological and Hydrological Administration's observations and forecasts, there is an 80-90 percent chance that the La Niña phenomenon will continue until the end of 2022 and could extend through the start of 2023, leading to a wetter climate in some areas of Vietnam. The Vietnam Meteorological and Hydrological Administration also forecasts that rainfall will be 50 to 100 percent higher than average in the Central Highlands this November and will remain 20 to 40 percent higher in December.

Despite generally favorable weather conditions, MY 2022/23 Robusta coffee yields saw lower performance compared to the previous crop. Coffee traders reported smaller bean sizes and lower cherry survival rates. While some attributed this to the reduced application of fertilizers because of high prices, others suggested that it simply an off-cycle year. According to the Ministry of Industry and Trade's Vietnam Industry and Trade Information Center (VITIC), in the first nine months of 2022, imports of fertilizers were down by 29 percent in quantity, but up 12 percent in value. Fertilizer imports from China and Russia, Vietnam's two largest suppliers, declined by 27 and 42 percent respectively. Retail prices of fertilizers in September 2022 increased by 40-50 percent compared with the same period last year, although this was a decline from peak prices in the first half of this year.

Due to lower yields, Post revises its estimate for MY 2022/23 total coffee production down to 30.22 million bags (GBE), including 29.20 million bags of Robusta, 4 percent lower than the previous crop (Table 1). Industry contacts also forecast less coffee output than the MY 2021/22 crop, ranging from 2 to 8 percent lower.

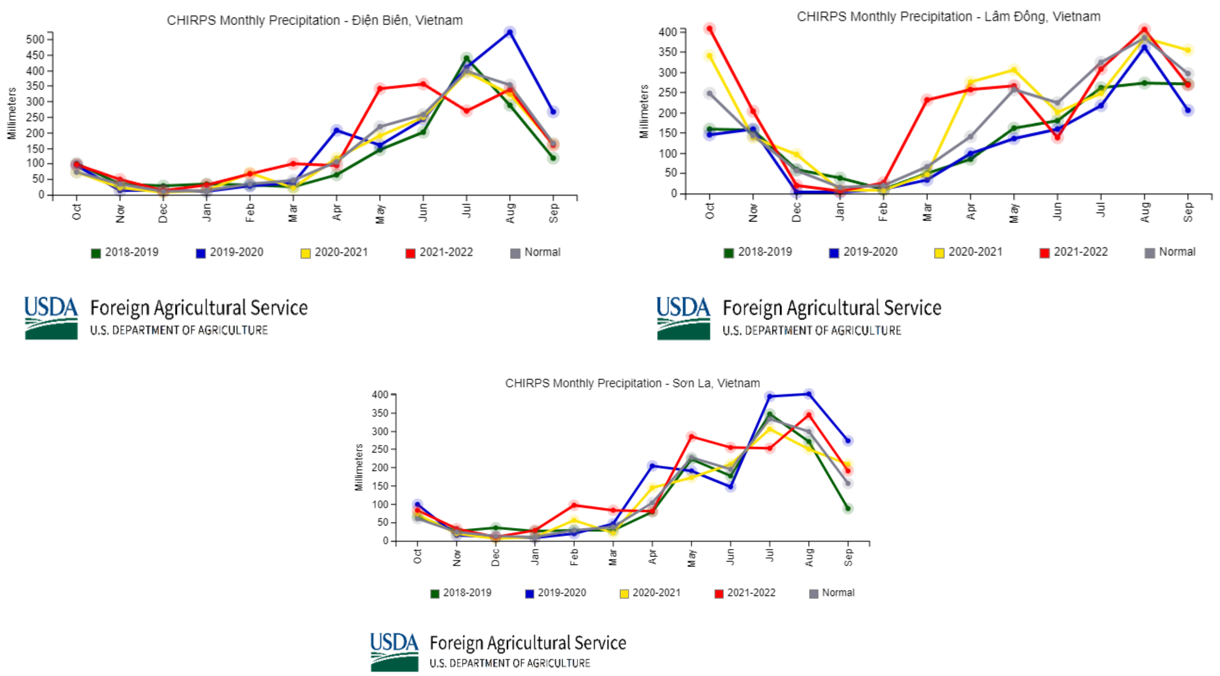
Table 1: Robusta Green Bean Coffee Production MY 2020/21-2022/23

	MY 2020/21 Estimate	MY 2021/22 Estimate	MY 2022/23 Estimate
Marketing year begins	Oct. 2020	Oct. 2021	Oct. 2022
Cultivation area (hectare)	620,000	620,000	620,000
Production (thousand bags)	28,000	30,480	29,200
Average yield (MT/HA)	2.71	2.95	2.82

Source: Post estimates

GADAS also reported that monthly precipitation in the main Arabica growing provinces of Lam Dong, Son La, and Dien Bien was higher than normal in the first six months of 2022, making it favorable for cherry development (Figure 2).

Figure 2: Monthly Precipitation in the Main Arabica Coffee Growing Provinces



Source: USDA Global Agricultural and Disaster Assessment System

The Vietnam Meteorological and Hydrological Administration forecasts that precipitation in the country's Northwest region will be 10-40 percent lower than average in November and December of this year, which will help Arabica harvesting. Good crops and higher farm-gate prices in MY 2021/22 allowed farmers in Son La and Dien Bien provinces in the Northwest region to invest more in new plantings, replace old trees, and improve the husbandry of the new crop. Despite abundant rainfall in the first half of 2022 and improved husbandry efforts, Arabica production in MY 2022/23 still saw a reduction, a potential result of an off-year cycle leading to lower yields. Post revises MY 2022/23 Arabica production down to 1.02 million bags (GBE). In total, Post estimates MY 2022/23 Vietnam's coffee production at 30.22 million bags (GBE).

In March 2022, the Ministry of Agriculture and Rural Development (MARD) issued Decision 1178/QD-BNN-TT that approved the "Coffee Replanting Project" for 2021-2025. Under this project, Vietnam will replant and graft 107,000 HA of coffee, with 85 percent of the replanting area located in the Central Highlands. The project also aims for an eventual post-replanting yield of 3.50 tons per hectare (MT/HA) and raise farmer income per hectare 1.5-2 times higher than the pre-planting period. Local media cited MARD reports that the Central Highlands had replanted and grafted a total of 166,579 HA of coffee between 2011 and 2021, which improved overall health and yields.

CONSUMPTION

The Vietnam economy saw a strong recovery from the serious effects of COVID-19 that occurred in 2021. The Vietnam Gross Domestic Product (GDP) grew by 8.83 percent in the first nine months of 2022, its strongest rise in ten years and the World Bank forecasts that Vietnam's overall annual GDP will surge from an estimated 2.6 percent in 2021 to 7.5 percent in 2022. The Vietnam General Statistics Office (GSO) estimates that revenue from the accommodation and food and beverage service sectors in the first nine months of 2022 increased by nearly 55 percent compared to the previous year. The travel sector also saw an exceptional increase of 295 percent in revenue during this time. The strong recovery of these sectors has supported more domestic demand for out-of-home coffee drinking which had declined significantly in 2021 due to the COVID-19 pandemic.

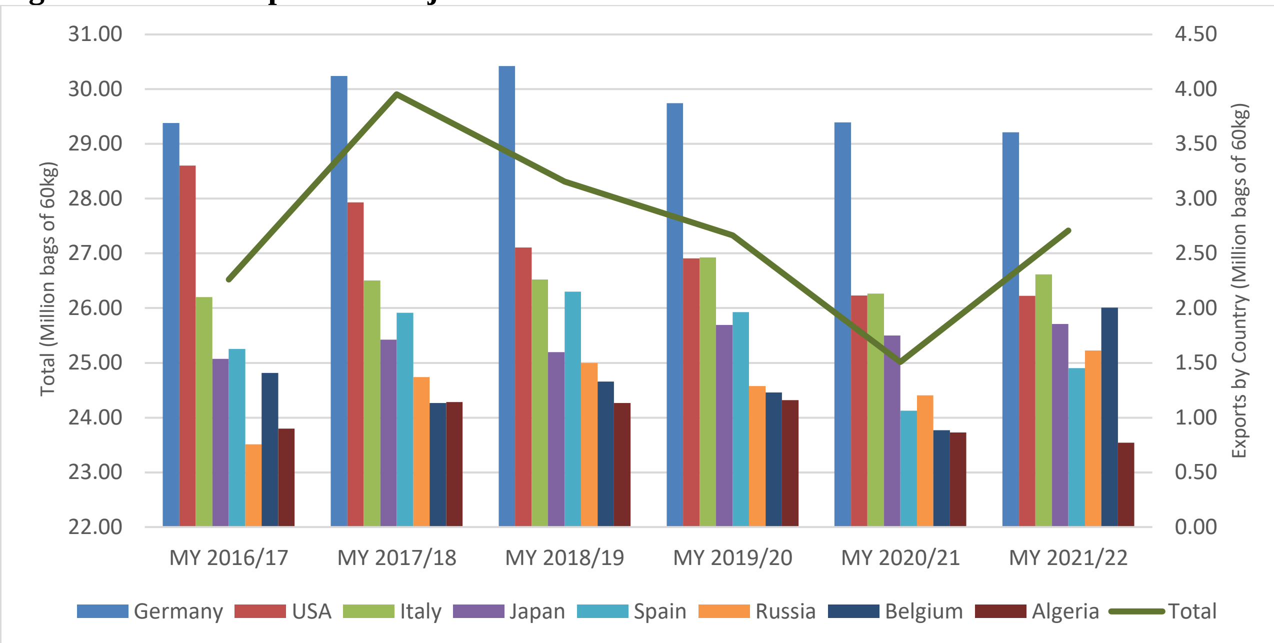
Consumers continue to prefer instant powdered coffee and ready-to-drink coffee for their convenience. Vietnam saw expanding investment in instant coffee manufacturing to meet both domestic and export demand in the recent years. Although demand for ready-to-drink coffee might decline in 2022 as out-of-home drinking resumes, Euromonitor forecasts that sales will still see steady year-on-year growth of 5 percent from 2022 to 2026. Ready-to-drink coffee manufacturers are eager to develop new products, flavors, and packaging to meet the diversified demands of customers. Post also notes the increasing presence of new ground coffee brands which are packed in sizes of 250-500 grams by small roasters for retail. These products are often described as "pure", "fine," and "single-source" to meet more sophisticated at-home demand. Post maintains its estimate of MY 2022/23 domestic consumption at 3.30 million bags.

TRADE

Exports

Based on Vietnam Customs' statistics, Vietnam total coffee exports in MY 2021/22 reached 27.42 million bags, 9.6 percent higher than the previous year. Germany was the largest market for Vietnam coffee, although its volume dropped by 2 percent. Other major markets, such as Belgium, Spain, and Russia, saw a jumps of 126, 36, and 34 percent respectively (Figure 3).

Figure 3: Coffee Exports to Major Destinations MY 2016/17-MY 2021/22



Source: Vietnam Customs

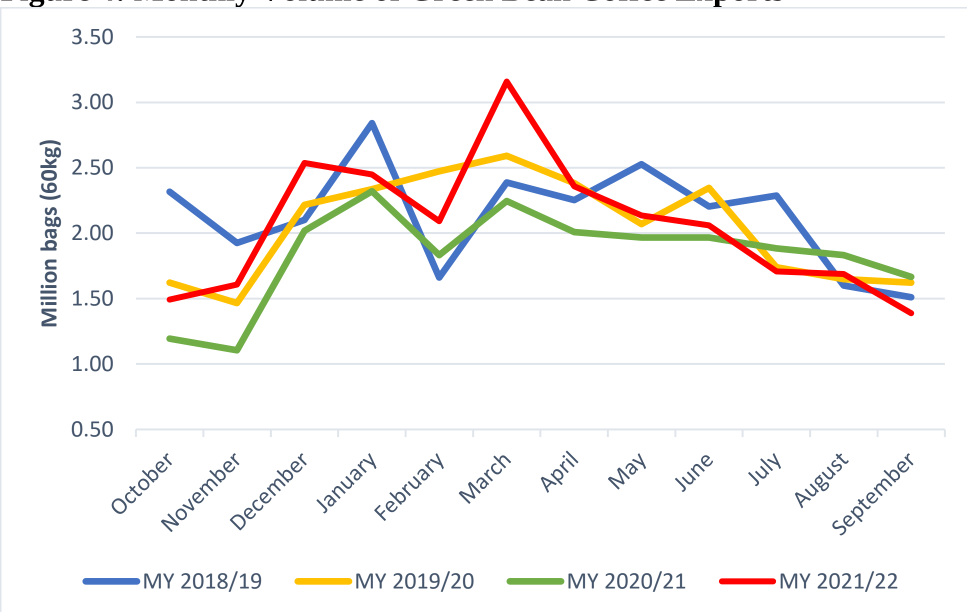
In general, exports to the European Union (EU) in the first nine months of 2022 increased by 22 percent in quantity and 48 percent in value, thanks to improved logistics and ocean freights, as well as the phasing out of tariffs under the EU-Vietnam Free Trade Agreement (EVFTA). Traders noted that the quantity of coffee held in bonded warehouses at the end of September 2022 was approximately 40,000 tons, much lower than 134,000 tons last year, confirming strong physical shipments in the marketing year. According to some coffee traders, physical shipments in MY 2021/22 were 24 to 29 percent higher than the previous year. Therefore, Post revises MY 2021/22 total coffee exports up to 27.70 million bags.

Coffee traders forecast world demand to grow in MY 2022/23, but at a much slower pace than pre-COVID levels due to inflationary pressures in many major coffee consuming countries. Inflated costs could potentially limit coffee consumption growth at below 1 percent, according to some studies. Ocean freights and shipping capacity have improved significantly, boosting exports in the recent months. S&P Global Platts and other media outlets report that container rates have fallen and that the market expects spot rates to continue to trend downward in line with shrinking demand. The Vietnam Dong has depreciated by almost 9 percent against U.S. Dollar since the beginning of 2022, supporting exports in general. Widening price gaps between Brazil Conilon and Arabica led to forecasts of higher Conilon demand for local consumption than exports. Brazil Conilon exports in the first six months of MY 2022/23 saw a 50-60 percent decline year-on-year. In addition, Vietnam Robusta has priced at a discount compared with Brazil Conillon and some African Robusta sources over the past year, which will benefit exports in coming months. Together with the current steady exporting pace, Post revises its estimate of MY 2022/23 total coffee exports up to 27.65 million bags.

Green Bean Exports

Vietnam green bean exports increased to over 24 million bags in MY 2021/22, the majority of which was Robusta (Figure 4). Much of this growth was due to improved logistics and ocean freights. Vietnam Robusta also raised its market share due to several factors, including a forecasted global Arabica deficit in MY 2021/22 and MY 2022/23, the widening price gap between Arabica and Robusta, and high Brazil Conilon prices. Coffee traders estimate that inclusion of Robusta in roasters' blends will be higher because of the above factors. Post revises its estimate of MY 2021/22 and MY 2022/23 green bean exports up to 24.70 million bags and 24.50 million bags.

Figure 4: Monthly Volume of Green Bean Coffee Exports

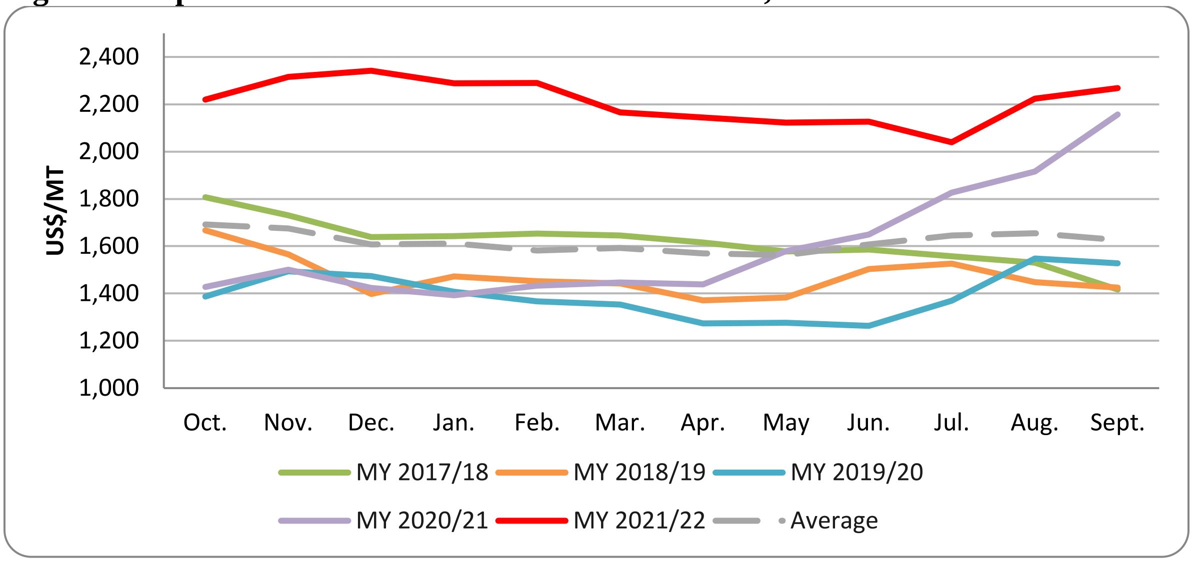


Source: Vietnam Customs, Coffee Traders

PRICES

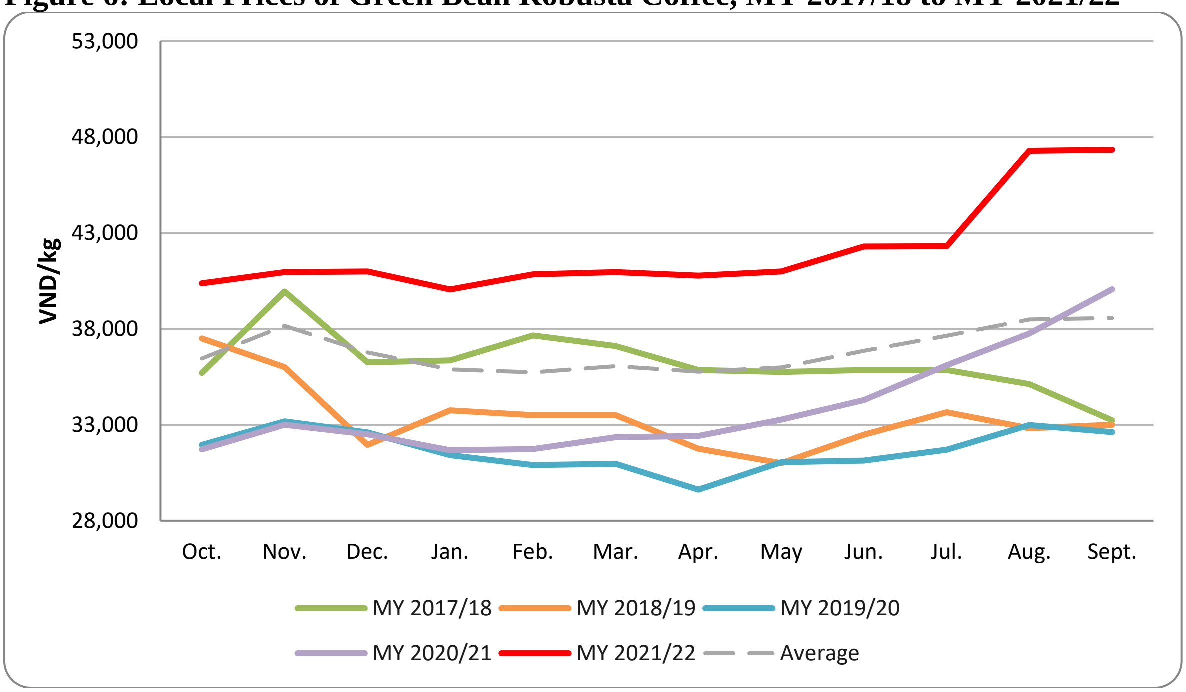
Export and local prices in MY 2021/22 rallied in line with futures prices and were much higher than the previous year (Figure 5, 6). According to coffee traders, local prices rallied to a ten-year high in the last months of MY 2021/22. High prices encouraged farmers to sell most of their old crop and will boost early sales of the new crop. Despite high prices, farmers saw shrinking profits in MY 2021/22, which may continue to MY 2022/23, due to high input costs. Some coffee traders estimate that coffee production costs increased by 10-28 percent year-on-year in MY 2021/22 and MY 2022/23, mainly on higher costs for fertilizer, pesticides, labor, and fuel.

Figure 5: Export Prices for Green Bean Robusta Coffee, MY 2017/18 to MY 2021/22



Source: Coffee traders

Figure 6: Local Prices of Green Bean Robusta Coffee, MY 2017/18 to MY 2021/22



Source: Coffee traders

STOCKS

High farm-gate prices encouraged farmers to quickly sell beans, signaling stock drawdowns at the farm level at the end of MY 2021/22. Strong exports in past months also reduced stocks in Ho Chi Minh City before the arrival of new crop. Post revises MY 2021/22 stocks down to 4.89 million bags on higher exports. Post also revises MY 2022/23 stocks down to 4.74 million bags on lower production and higher exports.

Production, Supply and Demand (PSD)

Coffee, Green	2020/2021		2021/2022		2022/2023	
Market Begin Year	Oct 2020		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2130	2130	3280	3660	3440	4890
Arabica Production	950	950	1100	1100	1100	1020
Robusta Production	28050	28050	30500	30480	29800	29200
Other Production	0	0	0	0	0	0
Total Production	29000	29000	31600	31580	30900	30220
Bean Imports	250	250	300	250	275	280
Roast & Ground Imports	200	200	200	200	200	200
Soluble Imports	100	100	100	100	100	100
Total Imports	550	550	600	550	575	580
Total Supply	31680	31680	35480	35790	34915	35690
Bean Exports	22450	22040	26000	24700	25000	24500
Rst-Grnd Exp.	550	550	550	600	600	650
Soluble Exports	2300	2330	2350	2400	2500	2500
Total Exports	25300	24920	28900	27700	28100	27650
Rst,Ground Dom. Consum	2600	2600	2620	2650	2710	2700
Soluble Dom. Cons.	500	500	520	550	590	600
Domestic Consumption	3100	3100	3140	3200	3300	3300
Ending Stocks	3280	3660	3440	4890	3515	4740
Total Distribution	31680	31680	35480	35790	34915	35690
Exportable Production	25900	25900	28460	28380	27600	26920

(1000 60 KG Bags)

Attachments:

No Attachments