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Report Highlights:

Post revised the Vietnam marketing year 2021/2022 (MY 2021/22) coffee production estimate up to 31.58 million bags, green bean equivalent (GBE), on higher yield. Post revised MY 2021/22 exports up to 27 million bags thanks to increased exports in the first quarter of 2022, potentially steady demand, and the possibility of logistics improvements. In MY 2022/23, Post forecasts total coffee production at 30.93 million bags (GBE). Although production is slightly lower than the previous year, MY 2022/23 is also considered a good year for coffee production thanks to favorable weather conditions. Post forecasts exports at 26.65 million bags on strong competition and an uncertain logistics situation.

Executive Summary:

Favorable weather conditions in the Central Highland's coffee growing areas during the 2021 dry season combined with timely precipitation contributed to higher yield, and therefore higher production of the MY 2021/22 crop. Post raised Vietnam MY 2021/22 coffee production by almost 2 percent from its last estimate. Rains came early in 2022, but timely for coffee planting, as it supported irrigation as well as the growth of coffee trees. However, skyrocketing input prices prompted farmers to use less inorganic fertilizers and supplement with organic fertilizers, which triggered concerns of lower yield in MY 2022/23. Post forecasts MY 2022/23 coffee production at 2 percent lower than the previous year.

Post revised MY 2021/22 exports up as shipping constraints have been easing with some shippers successfully shipping in bulk, and demands are potentially strong for roasted blends. A recently weakened Brazilian Real and potentially coming on-year crop which could be favorable for Brazil exports, and unclear status of global logistics could affect Vietnam coffee exports in MY 2022/23.

Commodities:
Coffee, Green

PRODUCTION

Results of the harvest of the MY 2021/22 coffee crop, which was completed in January 2022, clearly showed higher production compared to the previous year. Improved weather conditions during the 2021 dry season combined with timely precipitation contributed to higher yield, with bigger bean size and/or higher number of cherries per branch reported in the major coffee growing areas in the Central Highlands. At the end of the coffee harvest, coffee traders estimated MY 2021/22 production was from 5 to 11 percent higher than MY 2020/21. Due to favorable weather conditions, and trader estimates of the completed harvest, Post revised its estimate for MY 2021/22 Robusta production up to 30.48 million bags (GBE) and raised the total coffee production estimate to 31.58 million bags - an increase of almost 9 percent from MY 2020/21 (Table 1).

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

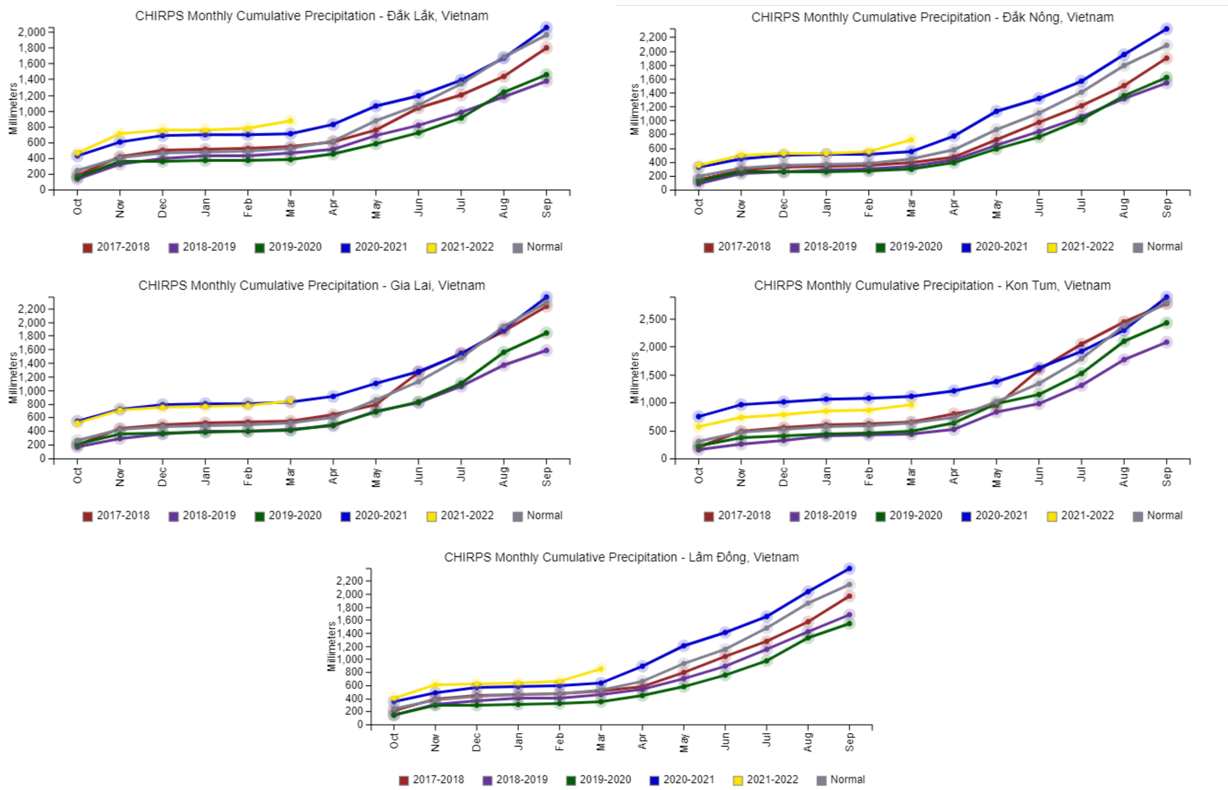
	MY 2020/21 Estimate	MY 2021/22 Estimate	MY 2022/23 Forecast
Marketing year begins	Oct. 2020	Oct. 2021	Oct. 2022
Cultivation area (hectare)	620,000	620,000	620,000
Production (thousand bags)	28,000	30,480	29,830
Average yield (MT/HA)	2.71	2.95	2.88

Source: Post estimates

Rains have arrived earlier this year, supporting growth of the MY 2022/23 coffee crop in the Central Highlands. According to the Vietnam Meteorological and Hydrological Administration's forecasts, there is a 50-60 percent chance that the La Niña phenomenon will remain until this summer, and then transition to ENSO (El Niño–Southern Oscillation) neutral conditions. This led to wetter than normal weather in the first four months of 2022, and therefore higher than average precipitation in many parts of the country, including the major coffee growing areas. The USDA Global Agricultural and Disaster Assessment System's (GADAS) data showed that monthly accumulated rainfall from January to March

2022 was higher than last year and higher than normal in Dak Lak, Dak Nong and Lam Dong Provinces. Although it was at the same level or lower than last year, it was still higher than normal in Gia Lai and Kon Tum Provinces (Figure 1).

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



Source: USDA Global Agricultural and Disaster Assessment System

Contacts, including coffee farmers, confirmed rains were early but timely for coffee planting, reducing irrigation needs for the MY 2022/23 crop, and therefore lowering costs and supporting the growth of coffee trees. In addition, farmers have steadily replanted coffee trees in recent years, taking advantage of new varieties with good productivity and disease resistance capability, which helped to maintain yield. Farmers told Post that productivity and disease resistance capability are the two major characteristics that they consider when selecting new varieties for replanting.

Farmers in Dak Lak and Gia Lai Provinces forecast that MY 2022/23 will be another good crop (Photo 1 and 2), but do not expect to see higher yield than MY 2021/22 which had been the second highest year in USDA’s records. Some industry contacts pointed to the rising cost of fertilizers and plant protection products as one of the biggest challenges for the MY 2022/23 crop. Contacts reported that prices of fertilizers increased by approximately 70 percent compared to last year, while farm-gate prices of coffee did not rise in the past six months. Due to higher input costs, farmers tended to apply less chemical fertilizers, and partially switched to organic fertilizers such as manure composts. Some industry contacts said this could negatively affect the yield of the MY 2022/23 coffee crop.

Photo 1: A coffee farm in Gia Lai Province

Source: Post

Photo 2: Coffee cherries in Dak Lak Province

Source: Post

According to the Vietnam Meteorological and Hydrological Administration’s observations and forecasts, temperatures in the Central Highlands in the first months of 2022 were slightly lower than average, which was favorable for coffee flowering and cherry setting stages. Temperatures will be at the average level in May-September, and slightly higher in October. Rainfall will be at the average level in May-September, and slightly lower in October. These weather forecasts may be favorable for MY 2022/23 coffee harvests.

Contacts in the Central Highlands said the area of coffee planting has been stable over the recent years. Instead of expanding the area of cultivation, producers are shifting their priority to sustainable, certified production and improving bean quality to obtain higher incomes for farmers. According to contacts, certified production, most often with a certification focused on sustainability, provides numerous benefits, including but not limited to:

- Protecting the environment and soil through reduced and more precise use of chemical fertilizers.
- Increasing farmers' income as certified coffee yields a higher price which usually more than offsets lower yield.
- Coping with climate change impacts by using production methods, including sprinkler or drip irrigation or planting shading trees, that use less water and preserve soil moisture.
- Coping with volatile commodity prices as intercropping provides farmers with an additional source of income (Photo 3).

Photo 3: Intercropping (coffee, pepper, durian) farms in Dak Lak Province

Source: Post

According to provincial Departments of Agriculture and Rural Development, there are approximately 171 thousand hectares (THA), out of approximately 590THA, in Gia Lai, Dak Lak, Lam Dong and Dak Nong Provinces that are certified by internationally recognized sustainability certification systems, including 4C, UTZ, Fair Trade and Rainforest Alliance, and the area continues to expand. Industry and government contacts noted that international roasters are acquiring more for sustainability certified coffee beans, driving producers to gradually shift to sustainable production. However, prices volatility and cost of inputs could sometimes affect farmers' decision in type of inputs they use. According to some farmers, there would likely be more farmers' interests in certified sustainable production should there be higher market demand.

Considering abundant rainfall during the flowering and cherry setting stages, and favorable climate forecasts for the harvesting stage in the Central Highlands, against increased costs of inputs, Post forecasts Vietnam MY 2022/23 total coffee production at 30.93 million bags (GBE), 2 percent lower than MY 2021/22, including 29.83 million bags of Robusta (Table 1). Post forecasts MY 2022/23 Arabica production at 1.10 million bags, unchanged from last year, with expansion in the Northern region offsetting contraction in Lam Dong province where farmers had switched to Robusta and other crops due to low prices of Arabica. Some industry contacts forecast that MY 2022/23 coffee production will remain on the high side, but at 2-5 percent lower than the previous year.

CONSUMPTION

Vietnam's agricultural sector was heavily hit by COVID-19 outbreaks which led to severe supply chain disruptions in 2021. General Statistics Office's (GSO) figures note Vietnam's annual GDP growth rate in 2021 at 2.58 percent - its lowest level in ten years. Lockdowns and restrictions on both domestic and international tourism hampered growth in the food and beverage, and the travel service sectors in 2021. According to GSO, the accommodation and food and beverage service sectors declined 19 percent, and the travel industry saw a 60 percent decline in revenue compared with 2020.

Beginning in October 2021, most business and production activities resumed as Vietnam slowly reopened its economy, and international tourism just resumed in mid-March 2022. As the number of COVID detections dropped significantly from over 100,000 cases/day in March to a few thousands in early May 2022, dining-out business and domestic tourism were recently back to normal. Therefore, Post revised MY 2021/22 domestic consumption forecast slightly up to 3.20 million bags.

Sources also noted increasing domestic demands for instant coffee products, as consumers value its convenience. Post noticed that more capital was poured into the coffee processing sector in recent years, both from local and foreign direct investments. According to contacts, the expansion of instant and ground coffee production serves both domestic and export markets. The COVID pandemic drove consumers' shopping behaviors towards e-commerce, with more people getting food and beverage products online. Some local coffee processors noted that their retail sale in 2021 and the beginning months of 2022 increased by 40-50 percent, with significant contribution from the online sales, as consumers reduced out-of-home coffee drinking during the peak of COVID community transmission.

As the number of daily COVID detections started to decline in April 2022, Post noticed strong revival of domestic tourism and dining-out, which signals increasing demands for out-of-home coffee drinking as well. Industry contacts noted that the domestic coffee market still shows positive growth with the expansion of both local and international coffee chains, and there are more demands for specialty and fine coffee. In addition to imported specialty coffee, many local producers are prioritizing quality over quantity to supply fine coffee products to the domestic market. Therefore, Post forecasts that Vietnam coffee consumption in MY 2022/23 will increase to 3.30 million bags.

TRADE

Exports

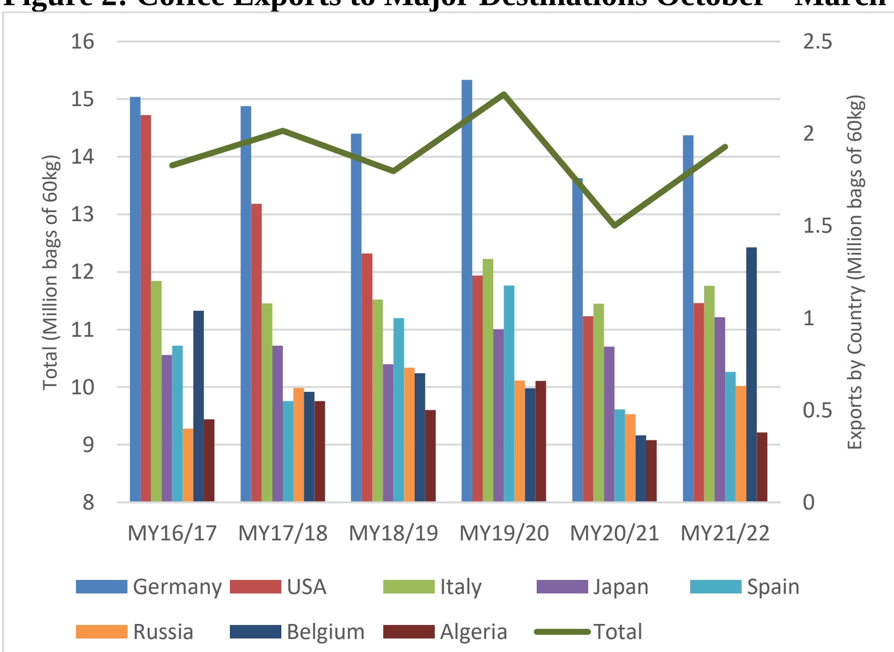
Local media reported that the Vietnam Coffee and Cocoa Association (VICOFA) aims to double the value of Vietnam coffee exports to $6 billion by 2030 by increasing the share of processed coffee exports from 10 percent to 25 percent. As Vietnam entered into numerous free trade agreements (FTA), the local coffee industry expects to take advantage of tariffs phasing-out under these FTAs to boost exports. As mentioned in the Consumption section, local and foreign companies have ramped up investment into coffee processing factories, especially instant coffee processing, to serve not only domestic but also export markets.

Vietnam coffee exports in the first six months of MY 2021/22 increased by 11 percent to 14.17 million bags, according to Vietnam Customs' data (Figure 2). *Note: Vietnam Customs' data include stocks in bonded warehouses which will be shipped out at a later time. As a result, the Vietnam Customs' numbers are usually higher than physical export volumes in a report cycle.*

Some industry contacts noted that Vietnam coffee exports were strong in the first six months of MY 2021/22, especially in March 2022 when exports jumped over 40 percent higher than the same period last year, as logistics constraints were gradually improved. High container freights and prolonged container shortages had hampered exports and led to stock build-up in the past year (VM2021-0096). In order to cope with container shipping constraints, international coffee traders recently started to ship green beans out of Vietnam destined for European markets in bulk vessels. The amount of bulk shipment could reach 5,000-12,000 tons each sailing. Coffee traders reported that average shipping costs in March 2022 were still nearly double the costs of the same period last year, although they slightly reduced from the past year's peak. Spot container freights to Europe are currently declining, supporting exports, while those to the United States are still at high levels.

Last but not least, high prices of Arabica resulted in Robusta being added more generously into roasted blends, driving up demands for Vietnam Robusta. Therefore, Post revised its forecast of Vietnam MY 2021/22 exports up to 27 million bags. While the Vietnamese Dong has been stable, the Brazilian Real recently weakened. As Brazil will start their harvest of an on-year crop soon, these currency dynamics could prompt Brazil to sell more in the coming months, competing with Vietnam Robusta in MY 2022/23. In addition, coffee traders noted that the upcoming Indonesia coffee crop is developing well and offers for delivery in 2022 are currently competitive. Post forecasts MY 2022/23 total coffee exports at 26.65 million bags, lower than the previous year.

Figure 2: Coffee Exports to Major Destinations October - March

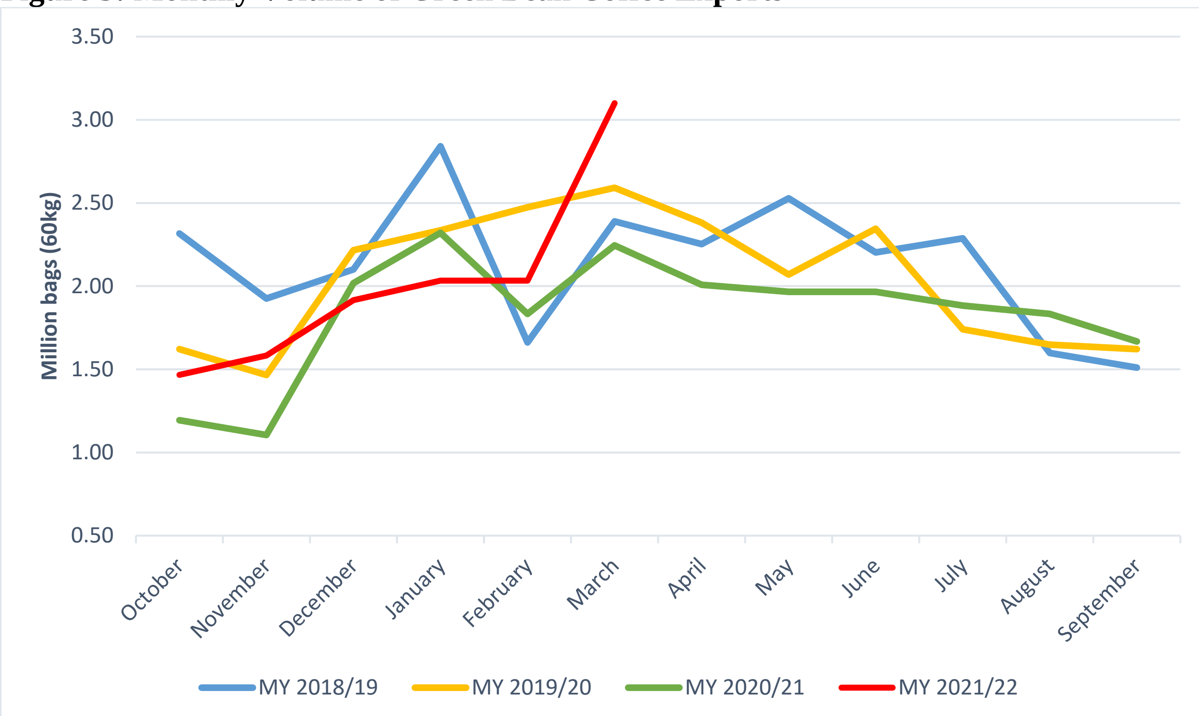


Source: Vietnam Customs

Green Bean Exports

Vietnam green bean exports increased approximately 14 percent to 12.13 million bags in the first half of MY 2021/22 (Figure 3). As mentioned above, improved logistics with initial bulk shipments, high stocks and increased demands for Robusta in roasted blends supported exports of Vietnam green bean in the first quarter of 2022. Therefore, Post revised its forecast of Vietnam MY 2021/22 green bean exports up to 24 million bags. Post forecasts MY 2022/23 green bean exports at 23.50 million bags, slightly lower than MY 2021/22 but higher than MY 2020/2021 on steady global demands and competition.

Figure 3: Monthly Volume of Green Bean Coffee Exports



Source: Vietnam Customs, Coffee Traders

Soluble and Roasted Exports

Post revised forecasts of MY 2021/22 soluble and roasted coffee exports up to 3 million bags, and forecasts MY 2022/23 soluble and roasted coffee exports at 3.15 million bags, higher than the previous year, on expansion in processed coffee production as noted above.

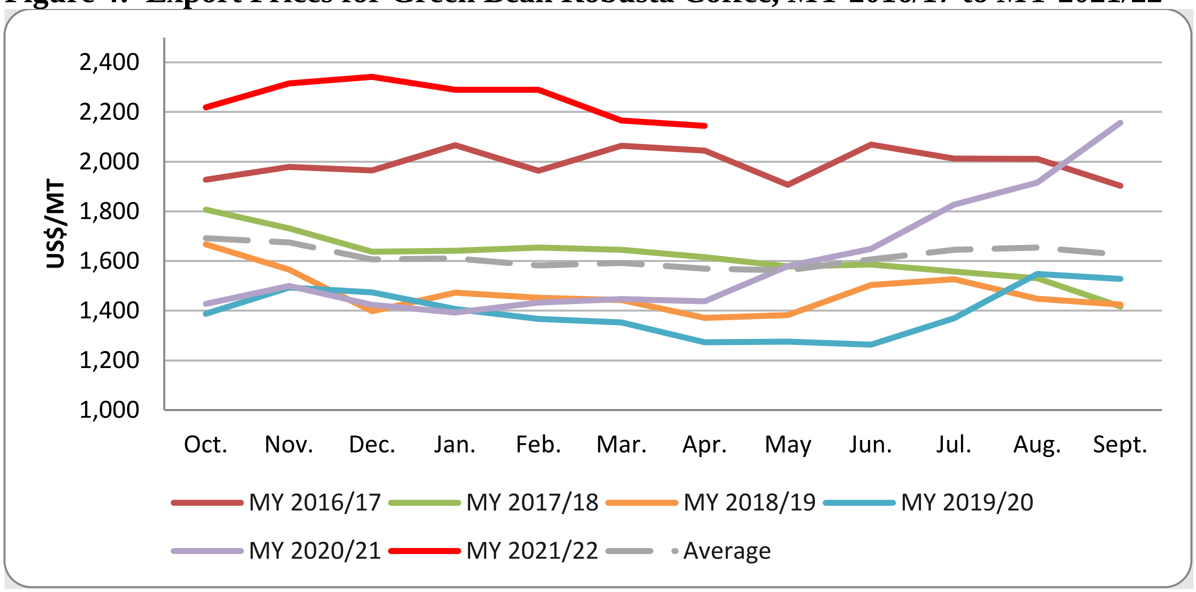
Imports

In MY 2022/23, the revival of coffee chains, and emerging demands for specialty coffee will continue to support imports of high-quality Arabica beans from Columbia, Kenya, Indonesia, Ethiopia etc., and processed products from Europe and other countries. Based on Trade Data Monitor, LLC's statistics, world exports of coffee beans to Vietnam in the beginning months of MY 2021/22 reduced sharply. The downtrend could be the impact of last year's down economy which led to temporarily lower demands for premium products. Post revised its forecast of Vietnam MY 2021/22 coffee imports down to 550 thousand bags and forecasts MY 2022/23 coffee imports at 580 thousand bags.

PRICES

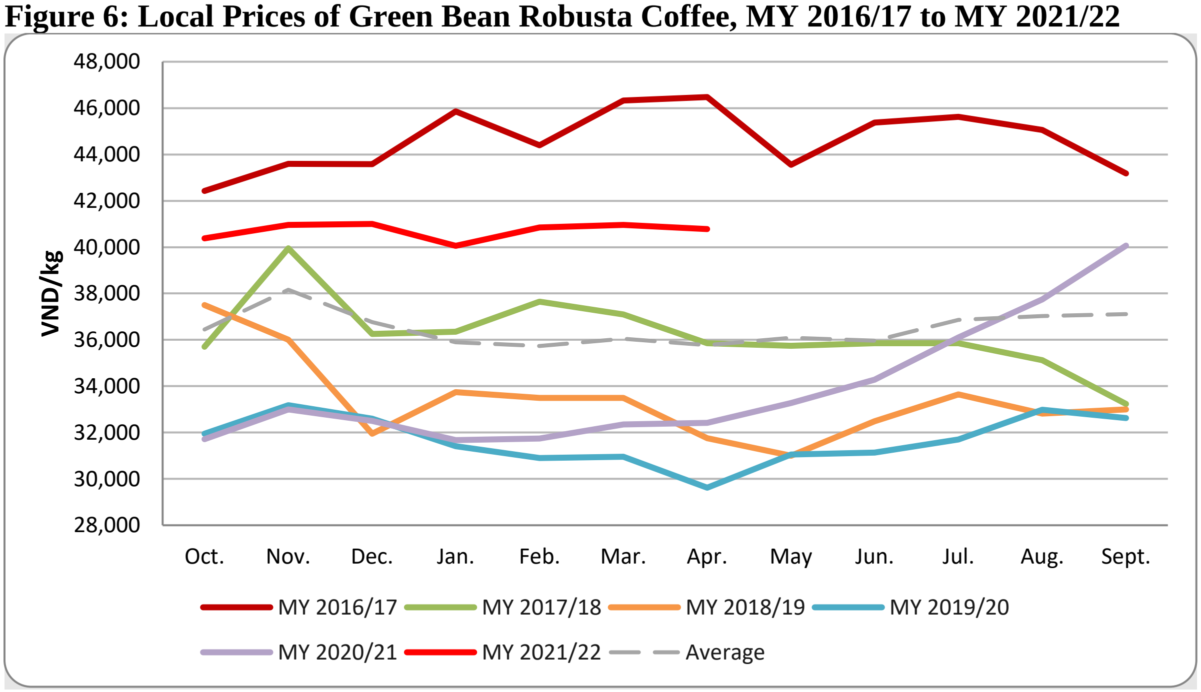
Export prices in the first half of MY 2021/22 rallied in line with futures prices and were much higher than the previous year (Figure 4). Local prices were also higher in the first half of MY 2021/22, which encouraged farmers to put increased husbandry efforts into the new crop (Figure 5). According to farmers, production costs increased significantly in MY 2021/22 due to rising prices of inputs, with fertilizer prices having risen by 70-80 percent in prices compared with the same period last year.

Figure 4: Export Prices for Green Bean Robusta Coffee, MY 2016/17 to MY 2021/22



Source: Coffee traders

Figure 6: Local Prices of Green Bean Robusta Coffee, MY 2016/17 to MY 2021/22



Source: Coffee traders

STOCKS

Post revised MY 2021/22 stocks down to 5.59 million bags on higher exports which is more than offsetting higher production in MY 2021/22. According to industry contacts, Vietnam coffee visible stocks by March 2022 were historically high at 10.5-11.8 million bags, including 3-4 million bags sitting in bonded warehouses. Lower stocks in Europe and higher stocks in Vietnam show that demand and supply are strong. Provided that logistics bottle necks continue to improve, Vietnam will be able to keep the current exporting and destocking pace in MY 2021/22. Post forecasts MY 2022/23 stocks at 7.15 million bags due to high carry-over and competition amongst the key exporting countries.

Table 2

Production, Supply and Distribution

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	0	5590
Arabica Production	950	950	1100	1100	0	1100
Robusta Production	28050	28050	30000	30480	0	29830
Other Production	0	0	0	0	0	0
Total Production	29000	29000	31100	31580	0	30930
Bean Imports	250	250	300	250	0	280
Roast & Ground Imports	200	200	200	200	0	200
Soluble Imports	100	100	100	100	0	100
Total Imports	550	550	600	550	0	580
Total Supply	31680	31680	34980	35790	0	37100
Bean Exports	22450	22040	26000	24000	0	23500
Rst-Grnd Exp.	550	550	550	600	0	650
Soluble Exports	2300	2330	2350	2400	0	2500
Total Exports	25300	24920	28900	27000	0	26650
Rst,Ground Dom. Consum	2600	2600	2620	2660	0	2710
Soluble Dom. Cons.	500	500	520	540	0	590
Domestic Consumption	3100	3100	3140	3200	0	3300
Ending Stocks	3280	3660	2940	5590	0	7150
Total Distribution	31680	31680	34980	35790	0	37100
Exportable Production	25900	25900	27960	28380	0	27630

(1000 60 KG Bags)

Attachments:

No Attachments