

Diverging trends for coffee and cocoa

Coffee prices have traded to the highest levels since 2014 as worries grow over the forthcoming Brazilian crop following drought and frost. A tight coffee market should continue to support prices. Meanwhile, large cocoa stocks suggest upside for cocoa prices is limited despite a deficit in 2021/22



Brazil's coffee supply woes

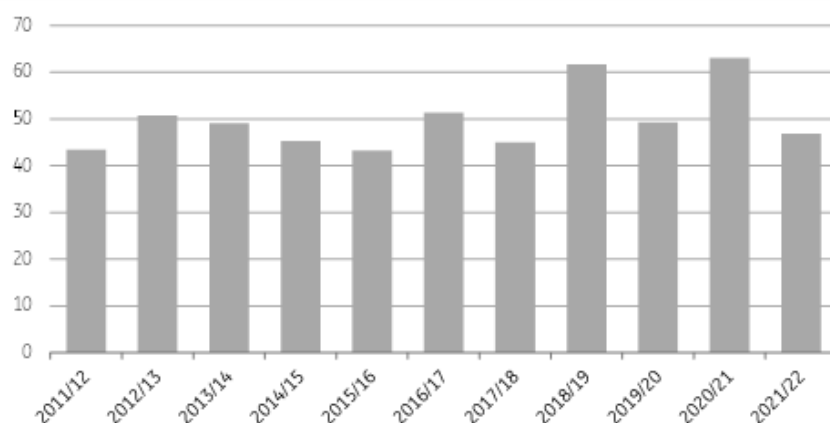
It has been an extremely volatile year for the coffee market. A large part of this volatility has been due to weather developments in Brazil. Adverse weather in the region has had an impact on several other crops including corn and sugar. However, the impact on Arabica coffee has been significant, which has pushed prices above US\$2/lb and to the highest levels since 2014.

Brazil has battled not only with frost this year, but also drought conditions. There are concerns that large areas of coffee trees were damaged, which will have an impact on production next season. Similarly, drought is also expected to weigh on the forthcoming harvest, although how much will depend on precipitation levels over the rainy season.

The Brazilian 2021/22 coffee crop is complete and the latest estimate from Conab is that production over the season totalled 46.88m bags (60kg bags), which is down 25.7% year-on-year. Dry weather weighed on the crop, while it was also the lower yielding year of the biennial cycle.

For the 2022/23 season, while it will be the higher yielding season, there is plenty of uncertainty over the impact of both drought and frost. There are estimates suggesting that as much as 12m bags of coffee could be lost in Brazil next season due to a combination of frost and drought. However more recently, growing regions have seen above average rainfall. If this trend continues over the rainy season, it could help reduce some of the expected losses due to earlier drought conditions.

Brazilian coffee output (m bags)



Source: Conab

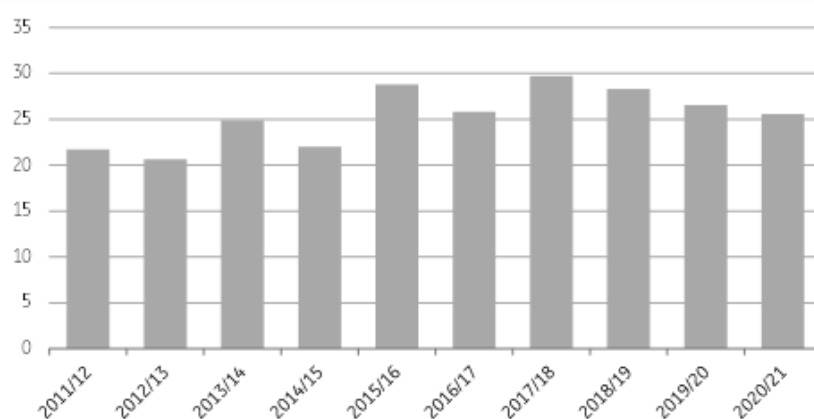
Vietnam's coffee logistic issues

The supply issues in the coffee market have not been isolated to Arabica. Supplies from Vietnam, the world's largest Robusta exporter have also suffered this year. Covid-19 restrictions and container shortages (which have led to high freight rates) have weighed on exports although these container shortages are not unique to Vietnam and this is something felt across the global market. According to data from the International Coffee Organization, coffee exports from Vietnam between October 2020 and September 2021 totalled 25.56m bags, down 7.5% YoY.

The 2021/22 season is well underway in Vietnam and while there have been reports of some labour shortages due to Covid-19 restrictions, the key growing region of the Central Highlands has already picked around 10% of the 2021/22 crop. While there were concerns over the outlook for the 2021/22 crop following drier weather earlier in the year, these concerns seem to have eased with good rainfall over August and September. As a result, Simexco has reported that some farmers have suggested that the crop could be as much as 10% larger than the previous season, when output totalled around 29m bags.

However, we will need to keep an eye on how Covid-19 and logistical issues evolve, as these could continue to provide support to the market.

Vietnam coffee exports (m bags)



Source: ICO

2021/22 global coffee deficit

The ICO estimates that the global coffee market saw a surplus of 2.48m bags in the 2020/21 season (October 2020- September 2021).

Consumption is estimated to have grown by 1.9% YoY to 167.1m bags and this is after having fallen by 2.1% in the previous season. The fall in consumption last season was due to Covid-19 related lockdowns and while we have seen quite the recovery in 2020/21 consumption, it is still just below pre-Covid-19 levels. However, with most economies continuing to ease Covid-19 related restrictions, demand is likely to exceed pre-pandemic levels in 2021/22. Despite the smaller Brazilian harvest this season, global production during the 2020/21 coffee year still edged higher by 0.4% YoY to 169.6m bags.

For the 2021/22 coffee year, demand is expected to outstrip supply. This will be driven by a combination of further growth in demand, along with a Brazilian crop weighed down by frost and possibly drought. However, much will depend on precipitation in the coming months. There are some forecasting a deficit of as much as 7m bags. The expectation of a deficit in 2021/22, uncertainty on how big this deficit may be and continued logistical issues globally suggest that prices should remain well supported.

Cocoa bogged down by 2020/21 surplus

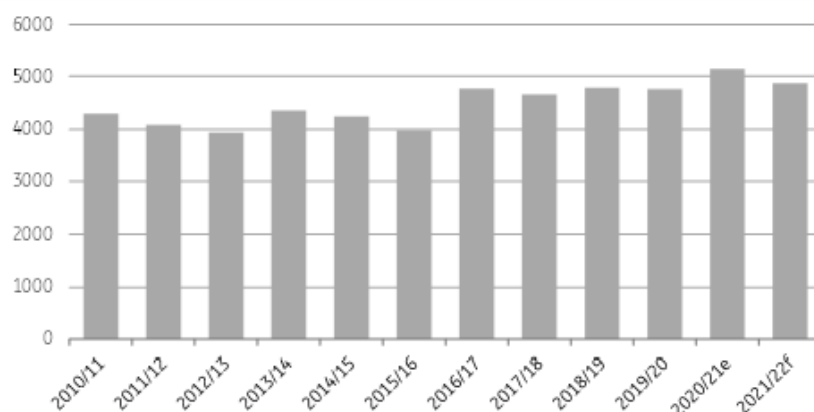
Record cocoa production from both the Ivory Coast and Ghana in the 2020/21 season ensured that the market finished the marketing year in surplus. According to the International Cocoa Organization (ICCO), the global market saw an estimated surplus of 230kt in 2020/21, which would be the largest surplus since the 2016/17 season.

The Ivory Coast managed to produce a record 2.23mt this season (up 5.7% YoY), whilst output from Ghana surpassed the 1mt market to total 1.04mt (an increase of 30% YoY). As a result of this strong output, global cocoa output surpassed 5mt for the first time on record, totalling 5.14mt in 2020/21, up 8% YoY. West Africa was key to this growth, which saw its share in global production grow to in excess of 77%, compared to around 75% last season.

Demand is estimated to have broken above pre-pandemic levels in 2020/21 with grindings growing

by 3.3% YoY to total 4.86mt in the marketing year, this is after grindings fell by 1.7% in 2019/20. The continued reopening of economies following the peak Covid-19 related lockdowns last year has been constructive for the demand picture.

Global cocoa output (k tonnes)



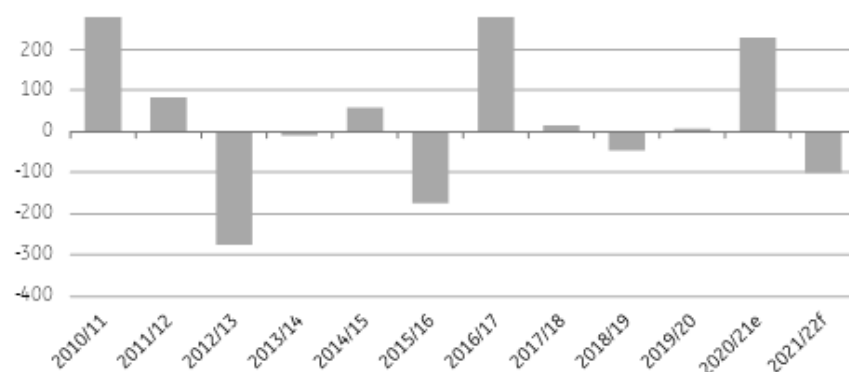
Source: ICCO, ING Research

Limited upside for cocoa prices in 2021/22

Having come under pressure in the first half of the year, cocoa prices made quite a recovery over the summer months. This was a result of the market looking ahead to the 2021/22 season, with the expectation that the market would return to deficit. However, this strength was short-lived, with the market coming under renewed pressure once again. The carryover of stock from 2020/21 is larger than initially expected, with a stocks to grinding ratio in excess of 40% at the end of September, which is the highest level seen since 2011/12, according to ICCO data. In addition, while global output in 2021/22 is expected to fall from the record levels seen last season, we still expect it to be high historically. Therefore, inventories and 2021/22 output should ensure that demand this season is easily met, without putting significant upside pressure on prices.

We estimate global production in 2021/22 will fall by 5.4% YoY to around 4.87mt, while we estimate demand to grow in the region of 1.2% to 4.92mt. After adjustments, this leaves the market in deficit by a little over 100kt. Given the stock build last season, the market should easily be able to absorb this deficit. While prices are likely to be supported due to the market drawing inventories over 2021/22, the level of stock suggests upside will be limited over the course of next year.

Global cocoa balance (k tonnes)



Source: ICCO, ING Research

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