algrano

HARVEST NEWS

May 2022

Get up to speed with the origin with updates from your partners at the farm level.

Highlights

Brazil: Though 2022 will see reduced volumes due to last year's drought, good weather from October signals a favourable crop in 2023, which can put pressure on prices. June is the critical month for frost and if the month sees no serious weather complications the market should become more stable.

Rwanda: The harvest is delayed compared to last year's but volumes should remain stable. Competition is driving the price of coffee cherries, with NAEB's minimum price ranging from 75 to 85 cents of dollar per kilo, which translates to around US$5.50/kg of processed parchment.

Colombia: Production in Colombia is down 15% in the first quarter of 2022 due to excessive rainfall brought by the La Niña phenomenon. The peak of the harvest in Coffee Axis is starting but the lack of sunshine affected flowering and volumes are expected to remain low.

Peru: The country is in its early days of the harvest and local speculation is already pushing prices up to 850 soles. Translating it to green coffee, it comes up to US$ 4.80/kg for clean cup standard fully washed. Volumes are stable and farmers are planting more trees due to better prices. The big question is if they'll be able to afford fertilizers for the growing planted area as the cost of inputs soared.

Indonesia: Now well into the harvest period, the archipelago is seeing a good level of production with prices nearly 30% above 2021's average. Big companies are securing coffee earlier than usual concerned with a potential competition-led price spike in the second part of the season.

Overview: a war of fundamentals

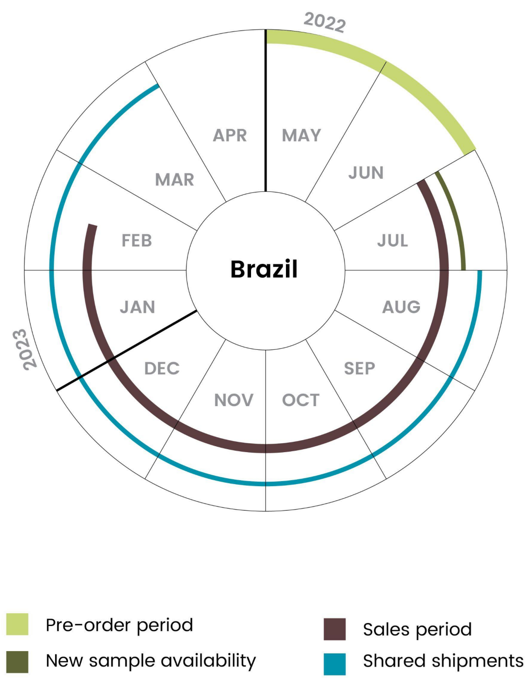
It can be hard to keep up with the recent volatility of the c-market. On February 9th, prices peaked at 258.45 US cents. On March 15th, they dropped to 211.15 US cents. More recently, after slightly recovering, prices dipped below 210.00 US cents, back to the levels of November 2021. This volatility is the result of a fundamentals war, not to mention the activity of speculators, moving from coffee to cocoa and other commodities.

On one side, there is a decrease in production across Latin America, with the ICO (International Coffee Organisation) expecting consumption to exceed the production of the 2021/22 crop by 3.1 million bags. On the other hand, the Russian war against Ukraine and soaring inflation might force a review of demand downwards, though no one knows if that is the case yet.

In summary, whilst production trends contribute to keeping prices strong, inflationary pressures and the conflict in Eastern Europe are pushing them down. And even if this impact is felt mainly on commercial-grade coffee, it's impossible for its effect not to be felt across the specialty sector. The price paid to farmers for standard specialty coffee (80-83 points) in producing countries is, at the moment, largely the same as that paid for commercial grades.

With the increase in local speculation and the surge of intermediaries on the ground, the pressure on prices keeps growing and commodity producers are holding coffee in the expectation that the Brazilian winter might bring better prices once again. The weather in Brazil has been good this year so far but there are concerns about frosts. Though some, more sceptical, say that speculation on frosts is as much of a seasonal phenomenon as coffee itself.

Brazil



The harvest is starting in May after four months with good levels of rainfall - perhaps too good, if you remember the havoc on the roads earlier this year - and the dry season kicking in as expected at the end of April. There is no doubt that Brazil will produce less volume than expected despite the high yields of the "on" year of the biennial bearing cycle. The latest estimate from Conab (National Supply Company) points to 55.7 million 60kg bags, which is 16.8% above 2021 but still under the record crop of 2020 when the country produced 63 million bags.

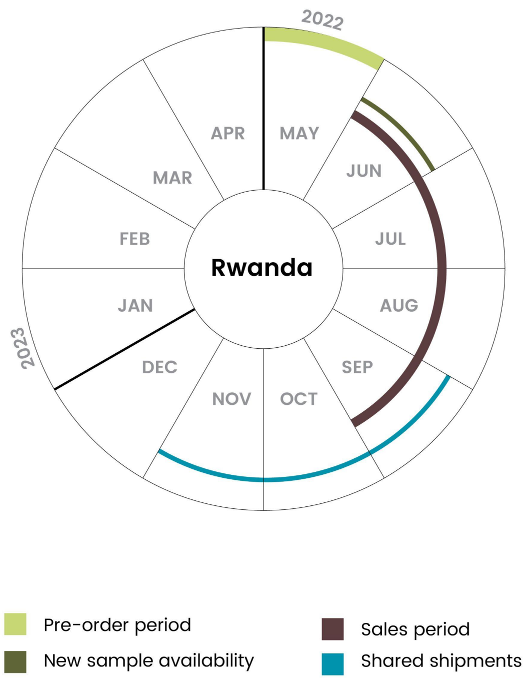
This is largely due to a reduction of productive area as thousands of hectares were damaged by the frosts of 2021 and therefore stumped or replanted. In some areas below the frost belt, coffee plantations were entirely replaced by grains. Also, despite an outstanding flowering, the bean setting suffered due to hydric stress. We had seen it already this February that farms displayed a patchwork of trees bearing no fruit and trees beaming with green beans. The news have been more positive since then as the weather favoured the cherries' bean filling stage, which is a good indicator of the quality to come.

Overall, business in Brazil has been slow in the inter-harvest period. No one wants to commit to prices when no one knows what is going to happen next. Producers are extra careful given the increase in production costs and news of low production coming from Central America and Colombia.

Winter is also a factor to watch out for. The La Niña phenomenon is expected to continue until December for the third consecutive year, an anomaly that only happened a handful of times since 1950. For Brazil, this means a lack of rain in the coming months, which is positive for coffee - or, shall we say, mostly positive.

Producers worry that a "neutral" La Niña between May and July - which is likely to be the case according to the latest forecasts - can increase the risk of frosts in the Brazilian winter starting in June. Historically, the worst frosts of 1975 and 2000 happened under La Niña.
Also, frosts tend to happen more often under conditions of neutrality as no disturbances in the atmosphere affect the movement of polar masses.
A possible frost would need to be severe to make damage and echo on next year's harvest when Brazil's production is expected to bounce back.

Rwanda



The country's harvest started in January (lower lands) and reached its peak period at the end of April. Our partners, who manage washing stations mainly on the Western side of the country, report receiving cherries from February. Though official production estimates are hard to come by, Valentin Kimenyi of Gasharu Coffee and Emmanuel Harelimana of Caferwa expect little variation from last year. "This is a year of low production in our area but it varies a lot. When we produce less other areas produce more, so the government isn't talking about a decrease", Valentin explains.

If last year's harvest picked up earlier than usual due to the weather, this cycle seems to be more stable and is expected to continue until August in the West. According to [NAEB's monthly report](), production this February was nearly 45% lower than in 2021, which likely signals more a delay than a reduction in volume. The Board has also been incentivizing farmers to plant more trees in the last two years and encouraging washing stations to build nurseries and distribute saplings. "We might have a 40% increase in production in three years", Valentin speculates.

The main concern for the local owners of washing stations is the current price. In February, NAEB [National Agricultural Export Development Board] more than doubled the minimum price for one kilogram of cherry. "The minimum price went up twice", Emmanuel starts. "It was at around 40 cents of dollar [per kg of cherry] and now it's ranging from 75 to 85 cents. That is only cherry. If you add the costs to turn cherry to green you end up with US$5.50/kg. it's really hard…" With increased competition, small exporters have to reduce their margins to remain competitive and jeopardize the services they can offer to farmers.

Competition is one of the reasons inflating prices beyond NAEB's minimum and making small washing stations nervous about how buyers will react to prices. We have started seeing the [first upcoming offers]() for pre-contracting on the platform, all above US 7.40/kg FOB. Despite the high prices, there is no evidence of strip picking or reception of low-quality cherries.

"People are not buying just anything because prices are high. They still care about quality because it's easier to market coffees of better quality", explains Emmanual.

The exporter adds that multinationals are the most aggressive buyers, trying to get as much coffee as they can to fulfil contracts. Valentin echoes the observation, going further to say that "Big companies come to our region in search of quality to mix with lower qualities from other regions at the end of the year. In other areas, prices are not so high, so the cost of sale for them is lower".

On the positive side, our partners are seeking to strengthen their positions. Caferwa has a new sales manager to look after buyers and build relationships. The company is also building a new washing station in Kigali, where they'll have a roasting and cupping room. Gasharu is in the process to become RFA (Rainforest Alliance) certified and hopes this will open the way for organic certification. His family is also looking for land to start growing organic coffee in larger volumes.

Colombia

Though we're happy to announce that new Colombian producers are being onboarded to Algrano (we'll share the details soon), the same can't be said for the situation of coffee production in the country. According to the FNC (Federación Nacional de Cafeteros), the national output was 13% lower in March and 7% lower in April when compared to the previous year. In the last 12 months, it's down by 16%. And 2021 wasn't a very productive year...

This is largely a consequence of the rainy weather, caused by the influence of La Niña over the country. Some departments in the Coffee Axis talk about a 30% reduction in the first trimester, higher than the national average because the rain continues to hit relentlessly and the roads are severely damaged. The peak of the harvest in Coffee Axis starts in May and goes all the way to July and the implications of the weather will be felt further then. So far there have been no signs of a break from the showers and the lack of sun has affected flowering.

"We're seeing this in Tolima, in Huila and I'm certain that the whole Axis is the same", starts Gaizka Pujana, manager of AsisteCampo. "It has been raining for two years! It's critical. The mountains can't absorb any more water and the roads are collapsing. Producers bring the coffee to their wet mills but have no sun to dry them. We have to bring it further down to the city to do it", he explains.

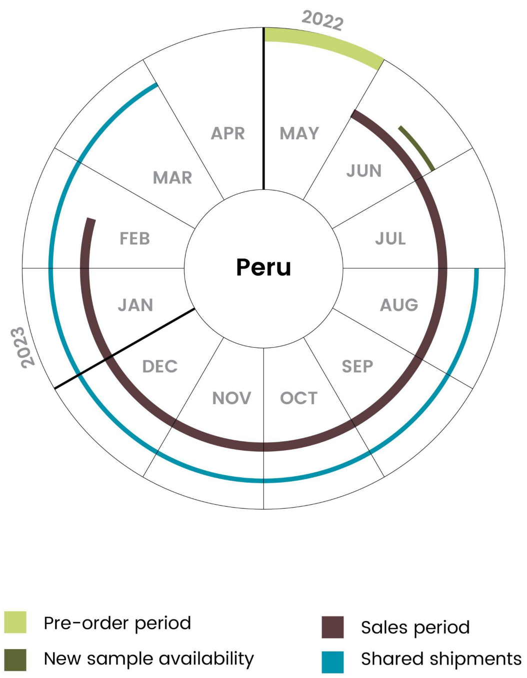
As roasters might have already noticed, prices in Colombia are especially high at the moment. According to Gaizka, there are many factors contributing to this. "People are trying to sell their coffee to big companies that have to fulfil contracts. Otherwise, it's too expensive and hard to sell", he says, adding that however expensive it is to buy right now, producing coffee has become "extremely expensive" due to the cost of inputs (which have more than doubled), logistics and processing as drying coffee is taking longer than usual.

"The Colombian peso has lost value, which keeps affecting the price of coffee and futures. Producers don't fix prices more than one month ahead of delivery so they don't have too many risks with fulfilment and profitability."

When asked about the possibility of losing buyers to cheaper countries like Peru, Gaizka pushes back, saying that people have been used to paying below production costs and that roasters should understand that prices need to be better. "The prices of today would be good for production costs of five years ago", he adds. The exporter warns that the Chinese market poses a risk to roasters in Europe. "All the coffee I offer in Europe I also offer in China. I don't sell everything but I get double the money on whatever I sell. In Europe and the US, people think US$ 2.50/lb is too expensive. The mentality is different in China and the Middle East."

Damaged roads in Tolima

Peru



The harvest is starting and cooperatives and exporters have both eyes on local speculation. "Last year the price for the quintal of a coffee that was a clean cup and nothing more doubled from 450 soles to 850 soles, stabilising at 750 soles at the end of the year. Higher qualities were selling at 950 soles. Today, despite the fact that we're not buying yet, the prices are already going up. One quintal of parchment with a 72% factor is 850 soles", says Marjorie Padilla of Origin Coffee Lab. That is around US$ 220.00 per quintal or US$ 4.80/kg of green coffee.

Other than the C-market volatility, local speculation is increasing due to inflation - the price of basic goods is up across the country - and labour costs. As of the 1st of May, the country's minimum wage went up by 10% in an attempt by new president Pedro Castillo to curb a wave of protests around the increasing living costs. "We'll have less coffee this year. Maybe not as little as some say but this is a year of lower production", says Marjorie.

Despite Marjorie's prediction of lower volumes - which speaks mostly of Amazonas and Cajamarca departments where Origin Coffee Lab operates -, the latest USDA Peru Coffee Annual reports that the country's production "is forecast at 4.03 million 60-kilogram bags, increasing two per cent from the previous year. Good weather conditions and higher prices are encouraging producers to increase output". The report adds that the harvested area is expected to increase 1.5% this year.

Nixer Ordoñez, General Manager of Cooperativa Agraria Norcafé, agrees that Peru is going through a though political situation and mentions a public consultation in October to change the country's constitution. "This is devaluing the currency which is good for exports but creates all sorts of problems. Fertilizers are expensive. The government is subsidising a part of it but not enough", he explains, adding that the cost of pickers went from 35 soles to 40 or 45 soles and that even port workers are charging a lot more to load and unload containers.

According to Nixer, the harvest is a bit delayed and coffees are arriving at the warehouse with too much moisture as recent rainfall is making it harder for producers to dry their parchment. The coop manager believes producers are able to profit more from their crop at moment - so much so that many farmers are planting more trees - but says he is sceptical about their ability to fertilize their fields properly, which might lead to problems in the future.

For aggregators, the key problem right now is liquidity. Current prices put extra pressure on cooperatives to secure enough financing to pay for coffee and the worry is being short to pay for parchment. Nixer says that Norcafé has secured enough loans for the season and that they can slowly start to sell coffee at fixed prices as they receive more coffee. "I am looking at what is happening in Brazil, obviously, and the international reserves. In our understanding, the prices should go up as Central America also produced less. But we have to wait and see."

Nixer stresses the importance of communication with buyers so that they have the full picture of the internal situation. "Recently I received an offer from a client to buy Fairtrade at +25. This is currently impossible! They were saying that producers are making lots of money and though they are making more money it's far from being too much. We're offering +40 or +45 for clean cup now. FTO is trading at +50 or +60. And no, we're not selling much but I would rather be cautious", he tells us.

Indonesia

The harvest in Indonesia started in April and our partners in Central Java, Bright Java Coffee, have already contracted the biggest chunk of what they will offer this year. "We need to finalize the contract for Parikesit Anaerobic Honey, convince the best robusta co-operative in the area to let us process an anaerobic natural, and contract for half of the anaerobic natural that will replace West Java Cikole this year. The other half starts harvesting after Idul Fitr, a holiday that goes until the 9th of May", explains Troy Kiper, founder of the company.

Though no official numbers have been released regarding the state of the Indonesian crop, volumes are expected to recover from last year, when the weather, the biennial coffee bearing cycle and supply chain issues brought production down. “There is a lot more cherry available this early in the harvest period than I am used to”, says Troy. “It says to me that there will be a lot of coffee but I anticipate it will all go quickly”, he adds, saying that he has been so far waiting to buy to get the best quality.

As with everywhere else, prices are up and there are concerns about the local competition. “People are buying no matter the quality. General prices are up by 28%. We have relationships that allow us to hold to [wait for the best] quality so we are not stuck with lower quality and higher prices”, Troy explains. The exporter recalls that, in 2021, prices “maxed out” at 11.000 IDR (Indonesian Rupiah) per kilo of cherry or around US$ 4.50/kg of green coffee.

Currently, Troy says they are looking at prices between 9.500 IDR to 10.500 IDR for cherry (around US$ 3.90 to US$ 4.30 for the kilo of green). However, the exporter says that parts of Sumatra are already seeing prices of 14.000 IDR for cherry (US$ 5.76/kg for green). “If the large importers decide to come down to Java to source again we will see the effect of that”, he wonders. “I am in such a place where I can go a little farther afield and reach out to co-ops that the large export houses have not touched.”

It is still early to assess the expected quality of Indonesian beans but Troy reports no evidence of strip picking or similar practices by producers hoping to cash in on whatever they can get. Most aggregators are, however, looking to fulfil contracts as early as possible to avoid a potential price spike and that can lead to reduced quality on bigger volume lots across the board.