

HARVEST NEWS

December 2021

Ethiopia and Central America A pandemic of high prices

Highlights

The 2021-2022 crop is expected to be reduced overall.



Ethiopia: - 10% to 15%



Mexico: -20% to 40%



Guatemala:
No significant change



Honduras: - 10% to 15%



El Salvador: - 10%



Costa Rica: - 10%*

**Percentages shown here are not official figures but rather reports from Algrano's partners.*

Less availability is creating more competition for cherry and parchment. Multinational companies and exporters are aggressively increasing prices to fulfil contracts.

The market is ripe with speculation and volatility is high. The key factors creating uncertainty are:

- Weather disruption caused by La Niña, bringing more rain and lower temperatures to Latin America
- The price of fertilizers might lead to reduced farm maintenance and affect production in 2023
- The 4th wave of COVID driven by the Omicron variant
- Defaults in Ethiopia, Brazil and Colombia
- The supply chain crisis, which might only be normalized by 2023
- The conflict in Ethiopia
- Overall food prices expected to remain high in 2022



FOB prices are expected to be around 30% higher than in 2020 (80–84 points).

Local prices for cherry or parchment are now up to twice as high as in 2020 across producing countries.

Inflation is pushing production costs up in all producing countries. The main items influencing costs are:

- Energy
- Fertilizers
- Food staples
- Labour
- Petrol
- Machinery and equipment
- Construction materials

Countries with a large production of high qualities like Ethiopia and Costa Rica are experiencing greater demand early in the season and will sell out fast. The opposite seems to be happening in origins that produce more standard qualities such as Honduras and Mexico as buyers are waiting for prices to go down or stabilize.

It will be possible to pre-contract coffees you already bought in the past throughout December. See available lots [here](#) and contact our team at hello@algrano.com. We recommend that you also reach out to your suppliers earlier this season.



Market overview

The price of specialty coffee is going to be higher in 2022. “*Café de 84 bajo los dos con cincuenta? No hay*”, said one of our partners in Honduras only a few weeks ago. He couldn’t find any 84 coffee below US\$2.50/lb, at least US\$0.60/lb more than 2020. We are hearing similar things from producers and exporters all across Central America and Ethiopia, which are in the middle of the 2021-2022 harvest. This increase is affecting mostly lots below 85 points but it will brush up against micro-lots too because producers’ costs are also going up.

Those who have been following news about the market know that prices are firm and no one expects them to go down very soon. Production is thought to be low across the coffee belt, including Brazil, Colombia and Ethiopia but also all countries in Central America (perhaps with the exception of Guatemala). In their [Commodity Markets Outlook](#) of October,

the World Bank suggested prices would “average about 30 per cent higher in 2021 compared to 2020 before stabilizing in 2022 as production in Brazil recovers and mobility restrictions in Vietnam ease.”

A market ripe for speculation

However, the latest from Brazil is that the outstanding flowering season in late September and early October led to few cherries as many flower buds were aborted. [Professor José Donizeti Alves](#), a specialist of plant physiology at the Federal University of Lavras in Minas Gerais, pointed out that this was caused mainly by a reduction in photosynthesis, which is related to climatic stress. He also wrote that the issue needs to be further investigated as traditionally high yielding fields that did not suffer frosts also showed a high rate of abortion. In his words: “It seems to me then, that this physiological abnormality is widespread and brings uncertainty to next year’s production”.

At the same time, the cost of fertilizers rose more than 55% since January according to official numbers. On the ground, we hear the price of inputs doubled, tripled and even quadrupled. This is when you can find the stuff... In Brazil, [30% of coffee farmers haven't received the fertilizers](#) they've ordered, something that might impact the production of 2023. The local currency is also incredibly devalued, meaning purchasing power for imported goods is reduced. The same is happening in Peru and Colombia, where organic producers are now struggling to secure manure because demand has risen for all agricultural sectors.

This type of news exacerbates the volatility more than supply and demand fundamentals. The market is ripe for speculation: La Niña might bring Colombia's production to a 40% low, Ethiopia's supply might be disrupted by civil war, Brazil might take longer to bounce back from the drought and producers might not fulfil their contracts. We don't know to which extent any of these things will happen but they will affect prices just the same. An [article from Bloomberg](#) says that "Technical chart signals suggest that if prices breach \$2.25 arabica could surge to the \$3 level". And in today's Exchange, technicals trump fundamentals...



Higher production costs and more competition

Most producers who sell coffee on Algrano said they hope roasters won't feel too much of the price increase. "Labour shortage and inflation means we are paying workers around 40% more than in previous years, but I want to try to balance the prices in a way that is not so high for them [roasters] so they know they have an ally who backs them up", stated Oscar Daza Bautista of [Hacienda Cafetera La Pradera](#) in Colombia, also harvesting right now.

The situation is different for single farms or estates and for co-operatives, associations or private exporters. Farmers will need to adjust prices due to higher costs but can somewhat avoid speculation if they only sell their own beans. All of those who blend and sell smallholder coffees need to juggle costs and [internal competition](#). When local merchants and coyotes know they can raise prices and still profit by selling to large buyers who are highly hedged and have large contracts to fulfil, everyone is forced to pay more.



What beats price in the war of cents per pound

What seems to be emerging from all this is a need for roasters to rethink how they buy coffee. “We work with two models”, explains Adrian Cabrera of [San Miguel Coffees](#) in Guatemala. “One is the family model. The relationship [between the roaster and a small farmer] goes way back, so the producer is willing to honour the prices we have been paying in the last 10 years. Nothing is changing here. On the other hand, we have roasters who say they rather cup and change the coffee every year based on quality. That is okay, but they don’t develop a relationship with the producer”. In this case, prices will change because the farmer doesn’t have long term security.

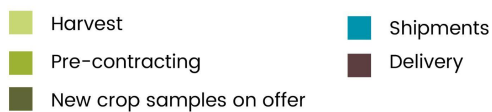
Adrian also says that only 5% of the specialty roasters they work with contract early and hopes this year will change their understanding of sourcing and the supply chain. He is very clear about this: roasters who are buying based on relationships rather than just on price and quality have preferential treatment. “I have an uncle who used to always say this to his buyers: ‘You guys don’t understand that every year there will be less coffee... And well, we will honour the people who honour the farmers first. We won’t trash a 25-year relationship because someone finally decided to pay a high price.’ In the war of cents per pound, long term stability beats price.



Ethiopia



7 shipments on scheduled between April and June



This is an off-year for coffee in Ethiopia and volumes will be reduced despite the good weather. The harvest started mid-October in Limu and the lower lands of Guji (below 1.600m) and was pushed to November in the Gedeo zone (including the districts of [Yirgacheffe](#), Wenago, Bule, Kochere, Gedeb and Dila Zuria), the higher altitudes of Guji (above 2.000m) and Sidamo. "From the national perspective, the harvest is good. Yirgacheffe [the North of the region in woredas such as Wenago and Dila, for example] and Sidamo will have a bit less yield because of coffee berry borer. Seven million trees were affected", says Takele Mamo of [Konga Coffee](#).

[Ethiopian coffee: pre-order & get samples](#)

Lower grades are already starting to be processed in December and can be shipped in January. Algrano sellers, however, expect to ship only by February (Washed) and March to April (Naturals and micro-lots) so all coffees can dry slowly and have enough time to rest. This is why our schedule for shared shipments starts in April. However, dedicated orders can leave early depending on the availability of containers.

If [last year prices for cherry were going from 16 to 27 ETB](#) (Ethiopian Birr), now our partners are seeing prices from 32 to 40 ETB, the highest ever paid. “We were expecting the price to be around 35 ETB but there is so much competition”, say Biniyam Aklilu of [Nardos Coffee Export](#). According to him, exporters who used to buy sesame seeds in Tigray and are barred from the region because of the conflict are now turning their attention to coffee. This is keeping competition high despite some washing stations being out of operations due to a lack of financing.

Mebrahtu Aynalem of [Boledu Coffee](#) also explains that prices for logistics are increasing and he expects higher FOB. [Like many exporters in Ethiopia](#), he reported a very good year in 2021



with growing exports despite the shipping delays. Mebrahtu expects clients to be able to travel to the country soon and has built a lodge for visitors at [Aricha](#). He is also investing in new washing stations, larger volumes of his experimental lots and new certifications, including UTZ and RFA.

Takele is also busy with logistics, making sure this year's exports are faster and smoother than before. Now, all exports will be managed under Konga Coffee despite the fact that each farmer has an export license. This doesn't affect the money flow. “It's not my money and should not go to my account. The farmers cover the export expenses and get paid directly. Their lots remain under their ownership until they are shipped”.

[Ethiopian coffee: pre-order & get samples](#)

A no-go war zone or normal life?

News about the conflict in Ethiopia are so inconsistent that it's hard to know what is really happening unless you are in the frontline. Headlines urge foreigners to leave the country and announce new territory gains. At the same time, everyone we speak to says life goes on as normal (unless you are a Tigrayan in Addis Ababa or who owns a washing station upcountry as some mills have been shut down), the road to Djibouti is safe and delivery of cherries to washing stations are normal. It's as if the country had a split personality.

A person working in Ethiopia was able to provide some insight but chose to remain anonymous: "If anyone tells you that they know what is happening in Ethiopia they are not telling the truth. And what the media portrays is a bit different to what really happens. You would think that Ethiopia is a no-go zone but activities in most of the country are well. People are not even talking about the state of the emergency". According to this source, it's business as usual in Jimma, Sidama and the SNNRP

(Southern Nations, Nationalities, and Peoples' Region). Guji is where the problems are and it's been "too risky" to travel upcountry in West Guji and the town of Bule Hora. "Rebels told farmers to ask mills for money for them to operate smoothly. It's like paying taxes to bad people."

What seems to be consensus is that the government will do whatever it takes to stop the Tigray People's Liberation Front (TPLF) from reaching Addis. On the economic front, the conflict is driving prices up "because of all the things [grains and seeds] that are not coming from the North. Potatoes increased from 10 to 20 birr/kg, onions from 18 to 40 birr/kg, tomatoes from 15 to 30 birr/kg and carrots from 10 to 20 birr/kg". General inflation is made worse by low liquidity. "There's actually not much money in the banks and they are not able to loan mills as much as they usually do." Ethiopians are also trying to get dollars to flee and "the black market is thriving but the government is cracking down more than ever".

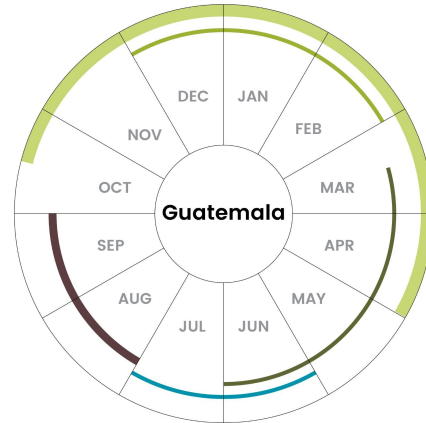
[Read more about the conflict here.](#)



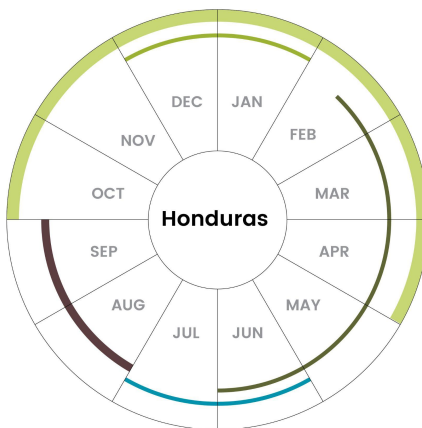
Central America



2 shipments in May



2 shipments from June to July



4 shipments from June to July



1 shipment in June



1 shipment in July

- Harvest
- Pre-contracting
- New crop samples on offer
- Shipments
- Delivery

[Central America: Pre-order & get samples](#)

Producers in Central America are uneasy. Their prices are going up and, with the exception of Costa Rica (where more than 70% of the estimated production is already sold and they rather now wait before further committing), they are finding buyers reticent and slow. "How much do you think they [roasters] will be willing to pay?" – is the question we always get. Volumes are expected to be reduced from last year's and both co-operatives and local exporters are facing competition with highly capitalised international buyers, putting them at a disadvantage.

"There is a bit of a panic in Mexico in regards to price. The harvest started a week ago [mid-November] in the lowest parts of Chiapas and Veracruz, local prices are starting to show up and the ones we see for the lower quality are already 80% to 100% above last year's", says Laura Elsa Meunier of [Ensamblajes de Cafés Mexicanos](#). "Big companies like Ecom have contracted a lot of coffee

very early on, in September, at differentials. There was a lot of pressure on the co-operatives to sign and now to deliver but I don't know how they will be able to do that because differentials are also going up. In September they were at +70 and now they're at +90".

"Operators like Volcafé are looking to get hold of coffee as they have big delivery commitments with roasters like Nespresso", explains Guillermo Trejos, manager of [Coopelibertad](#). "We have managed to do a great job in sales in the last two years, accessing better prices, implementing a strict policy of ripe picking for cherries and securing specialized clients. All this allows us to compete with the transnationals in price." This is why co-ops like Coopelibertad will say no to cheaper deals even when the volume is attractive. They have been building a reputation with farmers as a good payer and don't have the same access to financial instruments (like hedging) as big players.



Adrián Cabrera of [San Miguel Coffees](#) says that the increase in market price will probably result in coffees that are US\$0.20/lb to US\$0.40/lb higher this year, which will make it harder for those buying qualities between 80 and 82 points. “We have been trying to start a fixed price program for these coffees for years and buyers always say they are okay with differentials. They are going to lose money now...” Adrián is very keen for sourcing practices to change in favour of closer relationships with producers and hope 2022 will be a year of opportunity.

On the weather front, there has been overall more rainfall and some concern about the end of the year in Costa Rica. Nothing nearly as disruptive as [storms Eta and Iota](#) (remember the photos of flooded Tegucigalpa airport?). “We had too much rain and the flowering wasn’t

good but our production won’t drop much”, says Jonathan Duran of [Coopeagri](#). “We are doing well for time, though. Last year we had a one month delay and now we’re on schedule, having received a high percentage of cherries from lower altitudes.”

In all other Central American countries and Mexico, the weather has been stable. “No excesses of rain or strong dry spells here”, says Juan Francisco of [FECCEG](#) in Guatemala. “The storm season is over and we have no forecast for hurricanes. We’re also working with 90% renewed trees in the last 3 to 5 years, so the biennial coffee cycle doesn’t affect us much.” Carlos Pola of [Finca Las Brisas](#) in El Salvador reports that winter has been “almost perfect” (at least as much as it can be in times of climate crisis).



Carlos is an atypical Salvadoran farmer. With innovative farming techniques, he expects to increase his volume by 25% this season. He is less optimistic when it comes to the rest of the country. "Our costs are rising because the government increased the minimum wage by 20% as elections are on the way and climate change is a reality. This harvest is pretty delayed... About one month." At the same time, Carlos has seen many producers trying to reactivate their farms since June 2020 and fear prices will be low again when these plots come to production.

Weather news from Honduras are largely positive, with good conditions from March to April, when the flowering period starts, and no excessive rains at the end of the year. Farmers are still, however, dealing with the damage from last year's back to back hurricanes on their fields and access roads. "Some stumped their trees, others had to plant new ones... All in all the volume will be less. Though the producers we work with have been fertilizing there are many who haven't as the good prices came right after the peak of our season", explains Ronald Alvarado of [Beneficio Santa Rosa](#).

As a marketing representative for co-operatives and farmer groups, Beneficio Santa Rosa is unhappy with how long buyers are taking to make a move. "Some want to fix it but we can only fix it one month before shipping because at that point the coffee has been purchased", Ronald says. "We can work with fixed prices for coffees above 84 points at around US\$3.00/lb. This quality below US\$2.50/lb doesn't exist. Yesterday we fixed some contracts for an 83-point lot at US\$2.65..."

Mexican coffees are expected to come at similar prices. "An HG (High Grown) scoring 82-83 points last year was being traded at US\$1.65/lb FOB and this year it's being traded at US\$2.50/lb. A certified SHG (Strictly High Grown) of 83-84 points was US\$1.90/lb or US\$2.00/lb and this year it will start at US\$3.10/lb, US\$3.20/lb...", expects Laura of Ensamble. "Buyers are keeping safe. The ones who buy containers say they understand but don't want to sign contracts", she says. Her fear is that this reluctance will compromise quality, undoing some of the training they have been doing. "It's happened before. It's happening again."

[Central America: Pre-order & get samples](#)