USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Approved By:
Gerald Smith

Prepared By:
Quan Tran

Report Highlights:
Vietnam's MY2016/17 coffee production is revised down from about 26.7 million bags to 26 million bags due to unusual rain during the harvest that resulted in further losses for the expected smaller Robusta production. The forecast for MY2017/18 production is about 28.6 million bags, about a 10 percent increase compared to that of MY2016/17 due to favorable weather during the first half of the year.

Executive Summary:

Adequate rains starting in January through March helped coffee trees trigger more branches and early flowering. Additionally, the current high prices of local bean help farmers acquire vital inputs like fertilizer, which is providing adequate nutrition necessary for producing branches and coffee cherries for MY2017/18 production.

During the past 2-3 years, more farmers were making the switch from producing coffee to growing other cash crops such as black pepper, avocado, and passion fruit in order to generate higher incomes. This change is reducing coffee areas especially in Dak Lak, where arable land is limited. In other provinces like Dak Nong and Lam Dong, where arable land reserve is still available, the new arable land is used more for growing black pepper and avocado. In short, coffee production is facing strong competition from black pepper production and this ongoing situation is impacting the expansion of coffee planted area in Dak Nong and Lam Dong.

Currently, the situation is changing as black pepper price started dropping continuously in calendar year 2016 into calendar year 2017. The price of black pepper has been cut in half compared to its price over the past 2-3 years. Consequently, since black pepper price is no longer attractive, farmers are reluctant to make the switch from coffee. Post estimates the total MY2017/18 coffee area the same as MY2016/17. The increase of coffee area is expected to return in the coming years. Increase coffee acreage will come from new coffee nurseries and the resulting new plantings. This does not mean farmers will abandon pepper production. The most likely situation is that farmers will maintain sustainable black pepper farms while growing coffee as a second cash crop, which has less risk and requires less investment.

Commodities:

Coffee, Green

Production:

MY2016/17 crop:

According to local traders, longer than normal rainfall in October and November 2016 delayed harvest of Vietnam's MY 2916/17 coffee crop. Coffee growers often pick Robusta cherries from late October to January. Late rain starting in October through December 2016 did not only slow the picking and drying processes, but caused more physical damage to the beans. This situation also lowered the quality of the beans.

The forecast for MY2016/17 production is revised down from about 26.7 million bags to 26 million bags, which is about a 2.6 percent drop compared to USDA's number due to damage from the late rain.

MY2017/18 crop:

As of April 2017, adequate precipitation from off-season rains during January-March 2017 has helped production. Vietnam's coffee production for MY 2017/18 is expected to recover and increase by about 10 percent compared to that of MY 2016/17.

Coffee Production by Marketing Year (Oct.-Sept.) (green bean)

	MY2015/16	MY2016/17 Estimate		MY2017/18 Forecast	
		Old	New	Old	New
Marketing year begins	Oct. 2015	Oct. 2016	Oct. 2016	Oct. 2017	Oct. 2017
Production (thousand bags)	28,930	26,700	26,000		28,600
Average yield (tons/ha)	2.62	2.42	2.36		2.59

Source: Post estimates

Favorable weather with possibility of adverse condition later

According to MARD's Water Resource Directorate the rainy season arrived earlier this year to Central Highland, which is Vietnam's main coffee producing area. At the same time, the rainy season will also end earlier than expected. In addition, a mild El Nino phenomenon could return in the second half of calendar year 2017. If this situation occurs, the quality of the coffee cherry could be affected while impacting the new crop.

Change in Coffee Area – Decreasing Competition from Other Cash Crop

In recent years, Vietnam went through a transformation to become the world's leading producer and exporter of black pepper. Farmers were earning higher income from growing black pepper. This situation lured farmers to switch sizeable parts of their farms to growing pepper. The expansion posed a threat to coffee production in the Central Highlands where black pepper is the main competitive crop to coffee. The situation is changing because black pepper prices have dropped precipitously over the past year. Declining international and domestic prices for pepper have halted farmers switching production from coffee to black pepper. Overall, the Vietnamese black pepper industry is facing serious challenges regarding price, quality and quality control. Additionally, farmers are realizing that growing black pepper as an alternative cash crop to coffee is bringing disappointing low returns. This situation bodes well for future coffee production. Several new nurseries producing thousands of trees will help increase coffee producing acreage in the relatively near future.

Estimate of Vietnam's Coffee Areas by Province

Province	Approximate Coffee Area in MY2015/16	Approximate Coffee Area in MY2016/17	Approximate Coffee Area in MY2017/18
Dak Lak	209,000	190,000	190,000
Lam Dong	154,000	162,000	162,000
Dak Nong	126,000	135,000	135,000
Gia Lai	80,000	82,500	82,500
Dong Nai	21,000	21,000	21,000
Binh Phuoc	16,000	16,000	16,000
Kontum	14,000	13,500	13,500
Son La	12,000	12,000	12,000
Ba Ria - Vung Tau	15,000	15,000	15,000
Quang Tri	5,050	5,000	5,000
Dien Bien	4,500	4,500	4,500
Others	5,700	5,700	5,700
Total	**662,250**	**662,200**	**662,200**

Sources: Provincial DARDs, MARD, Local exporters, Local traders.

Consumption:

Post maintains the estimate for domestic consumption for roasted and ground coffee at 2.5 million bags MY2016/17, and the estimate for MY2017/18 is about 2.55 million bags due to the continuing growth of coffee shops and cafes. Vietnamese coffee drinkers prefer roasted and ground coffee because of its full-bodied and original flavors. The domestic coffee market remains fierce with strong competition coming from well-known foreign coffee brands such as Dunkin Donuts, Coffee Beans and Tea Leaves, Gloria Jeans, My Life Coffee, McCafe, PJ's including several Korean coffee chains like Coffee Bene and the Coffee House. However, local chains like Trung Nguyen, Phuc Long, Highlands and some new local players such as Passio, Thuc, Cong Café have their own traditional coffee drinks, which keep the chains afloat in a competitive market. Post sees mild growth in the domestic coffee market because the Vietnamese coffee market needs more value-added coffee products to expand.

Soluble coffee is enjoying light growth because of the increasing number of western expatriates living in the big cities in Vietnam. Coffee drinking in western cafes has becomes the vogue across Vietnam.

Trade:

Exports

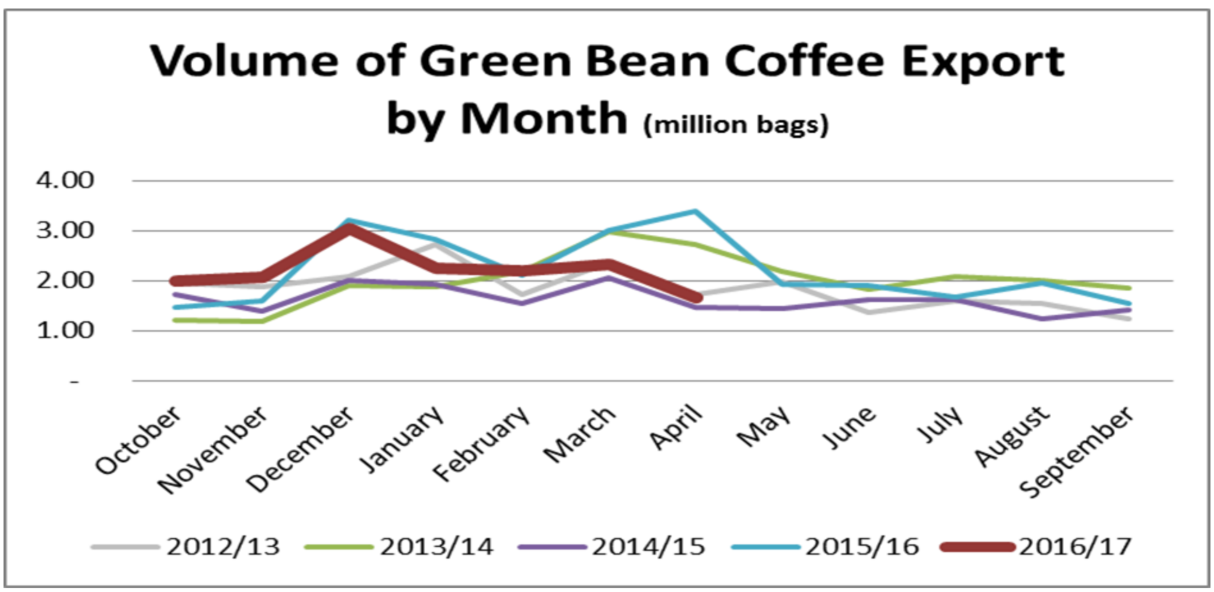
Post revises the estimate for Vietnam's MY 2016/17 total coffee exports, including green beans, roasted and ground, and instant coffee, up from 26.05 million bags to 26.55 million bags due mainly to the expected increase of green bean coffee exports. Total export for MY 2017/18 is forecast at about 26.65 million bags, due to limited production and carry-over stock.

Green Bean Exports:

According to trade data, Post expects Vietnam to export about 24 million bags of green coffee beans in MY 2016/17, which is an increase of about 500,000 bags compared to USDA estimate, due to the expected increase exports of Robusta green bean, but less than the 2.95 million bags compared to MY 2015/16 due to limited production. MY 2017/18 green bean export is forecast at 24 million bags, due to expected low coffee carry-over stock from the MY 2016/17.

Soluble and Roasted Exports:

Post maintains exports of roasted coffee in MY2015/16 at 550,000 bags, and exports of soluble at 2.0 million bags GBE (Green Bean Equivalent). Post forecasts the same volume for MY2016/17 for roasted coffee due to the flat growth of these sectors, but an increase of 100 thousand bags to 2.1 million bags for soluble coffee due to increasing investment in companies that are exporting to the Chinese market.



Source: Vietnam Customs

As of April, year to date export is about 14.28 million bags for all kinds of coffee compared to 15.25 in the same period of MY 2015/16. Out of the current export amount, green bean is about 13.45 million bags, compared to 14.42 million bags in the same period of MY 2015/16.

Imports:

Vietnam continues to import small quantities of green coffee beans, as well as roasted and instant coffee from Laos, Indonesia, Brazil, and the United States. Vietnam's import of roasted/ground coffee from the United States has increased in the past couple of years due to the expanding coffee retail sector. U.S. brands such as Starbucks, McCafé, and Dunkin Donuts, and PJ's Coffee including several South Korean coffee brands have expanded their outlets widely in Vietnam's big cities.

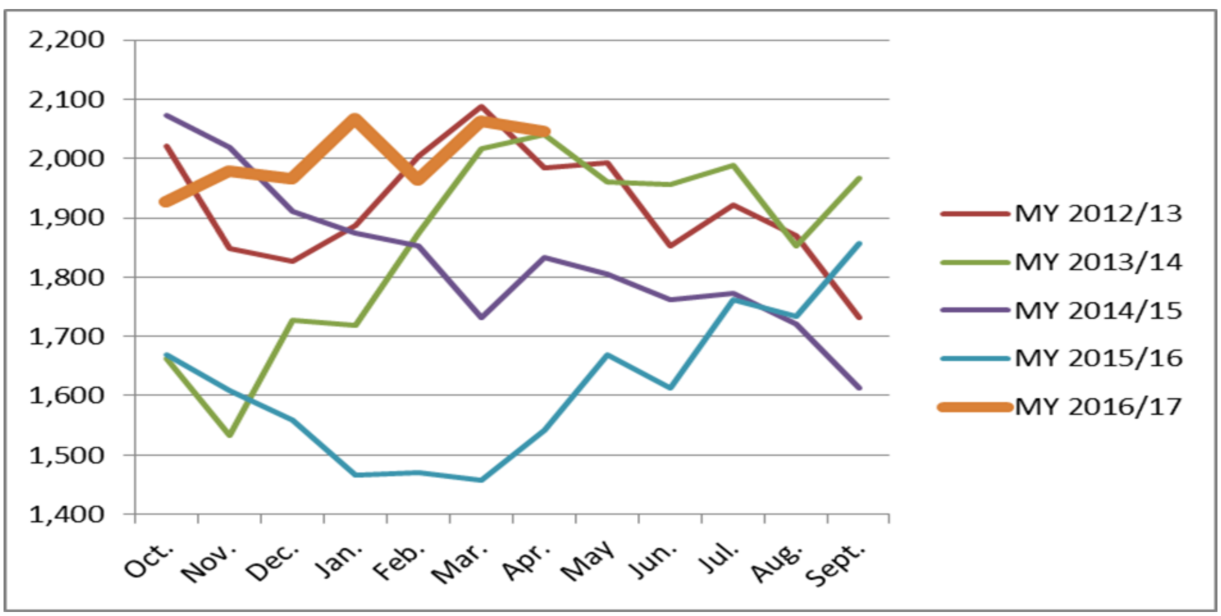
Total coffee imports in MY 2016/17 are expected to be up from 640,000 bags to 1 million bags Green Bean Equivalent (GBE), due to the rapid expansion of café and coffee shops in Vietnam. Of the total, about 160,000 bags GBE are soluble coffee, 340,000 bags GBE are roast and ground, and 500,000 bags are green bean imports. Post's forecast for MY 2017/18 total coffee imports is 1.06 million bags.

PRICES

Export Prices:

The MY 2016/17 monthly export prices of common ungraded green bean Robusta (FOB HCMC) in the first 7 months are the highest in the past 5 years and always higher than $ 1,900. This situation is due to a shortfall in production and inventory for Robusta from both Brazil and Vietnam.

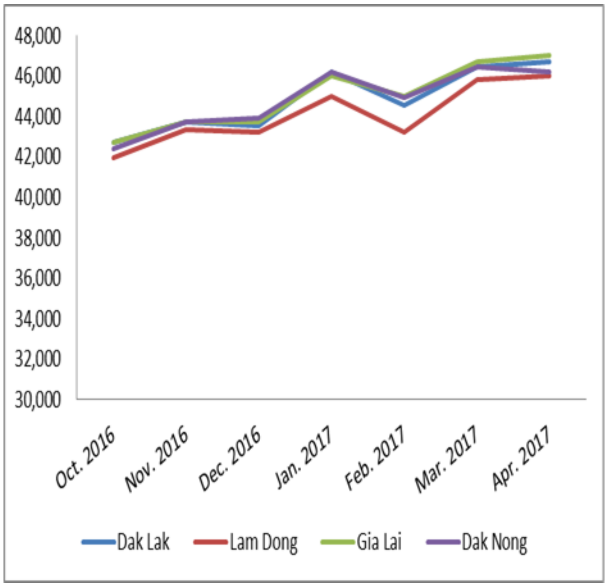
Average Export Prices for Green Coffee, MY11/12 to MY15/16

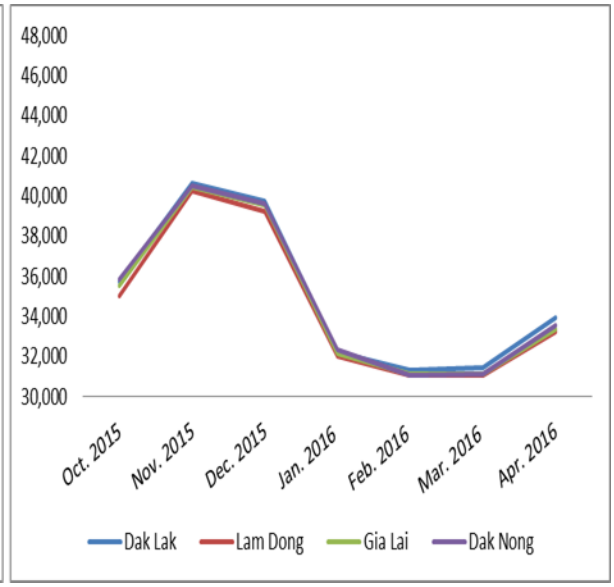


Sources: Daktip, Vicofa, BCEC, and Local Exporters

Domestic Prices:

Local prices for Robusta Beans in Major Coffee Growing Provinces in MY 2016/17 compared to MY 2015/16





Sources: Daktip, Vicofa, BCEC, and Local Exporters

The domestic prices for Robusta common ungraded coffee beans increased steadily in the first 7 months of the MY 2016/17. Unlike other years, prices declined right after the harvest in November, December and all the way down through March and April. The above graphs showed the significant difference of prices in MY 2016/17 and MY 2015/16.

Stocks

Post estimates the MY 2016/17 ending stocks at about 1.38 million bags, down from 2.25 million bags from USDA's number due to increase in exports in the marketing year. The MY 2016/17 ending stock is about 30 percent of MY 2015/16 ending stock. Post's forecast for MY 2017/18 ending stocks is also very low at about 1.46 million bags, this contributes to the expected limited export volume in the MY 2017/18.

Statistical Tables:
Production, Supply and Demand Data Statistics:

Vietnam’s Coffee Production, Supply and Demand (PSD)

Coffee, Green	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Tree Population	0	0	0	0	0	0
Beginning Stocks	6373	6373	3833	3803	0	1383
Arabica Production	1100	1100	1100	1000	0	1100
Robusta Production	27830	27830	25600	25000	0	27500
Other Production	0	0	0	0	0	0
Total Production	28930	28930	26700	26000	0	28600
Bean Imports	450	450	450	500	0	500
Roast & Ground Imports	20	20	30	340	0	400
Soluble Imports	160	160	160	160	0	160
Total Imports	630	630	640	1000	0	1060
Total Supply	35933	35933	31173	30803	0	31043
Bean Exports	26950	26950	23500	24000	0	24000
Rst-Grnd Exp.	550	550	550	550	0	550
Soluble Exports	2000	2000	2000	2000	0	2100
Total Exports	29500	29500	26050	26550	0	26650
Rst,Ground Dom. Consum	2250	2280	2500	2500	0	2550
Soluble Dom. Cons.	350	350	370	370	0	380
Domestic Consumption	2600	2630	2870	2870	0	2930
Ending Stocks	3833	3803	2253	1383	0	1463
Total Distribution	35933	35933	31173	30803	0	31043
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						