

**Required Report:** Required - Public Distribution

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**Report Name:** Coffee Annual

**Country:** Kenya

**Post:** Nairobi

**Report Category:** Coffee

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**Report Highlights:**

Kenya's MY2022/23 coffee production is forecast to decrease by 10 percent to 700,000 bags due to lower yields caused by reduced fertilizer application. MY 2022/23 area planted is anticipated to remain flat at 105,000 hectares as new plantings are curtailed by a shortage of coffee seeds. Post estimates MY 2022/23 exports will decline to 670,000 bags from 750,000 bags due to lower production. MY 2022/23 domestic consumption is expected to increase slightly as demand growth driven by the hospitality sector is curtailed by lower consumer purchasing power due to high inflation.

**Table 1: Production, Supply, and Distribution (PSD)**

Coffee, Green Market Year Begins Kenya	2020/2021		2021/2022		2022/2023	
	Oct 2021		Oct 2021		Oct 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	105	105	105	105		105
Area Harvested (1000 HA)	105	105	104	104		105
Bearing Trees (MILLION TREES)	170	170	169	169		170
Non-Bearing Trees (MILLION TREES)	0	0	0	0		0
Total Tree Population (MILLION TREES)	170	170	169	169		170
Beginning Stocks (1000 60 KG BAGS)	205	205	180	173		173
Arabica Production (1000 60 KG BAGS)	700	650	750	780		700
Robusta Production (1000 60 KG BAGS)	0	0	0	0		0
Other Production (1000 60 KG BAGS)	0	0	0	0		0
Total Production (1000 60 KG BAGS)	700	650	750	780		700
Bean Imports (1000 60 KG BAGS)	0	0	0	0		0
Roast & Ground Imports (1000 60 KG BAGS)	0	0	0	0		0
Soluble Imports (1000 60 KG BAGS)	11	11	13	13		15
Total Imports (1000 60 KG BAGS)	11	11	13	13		15
Total Supply (1000 60 KG BAGS)	916	866	943	966		888
Bean Exports (1000 60 KG BAGS)	655	657	720	750		670
Rst-Grnd Exp. (1000 60 KG BAGS)	0	0	0	0		0
Soluble Exports (1000 60 KG BAGS)	0	0	0	0		0
Total Exports (1000 60 KG BAGS)	655	657	720	750		670
Rst,Ground Dom. Consum (1000 60 KG BAGS)	61	25	30	30		32
Soluble Dom. Cons. (1000 60 KG BAGS)	20	11	13	13		15
Domestic Consumption (1000 60 KG BAGS)	81	36	43	43		47
Ending Stocks (1000 60 KG BAGS)	180	173	180	173		171
Total Distribution (1000 60 KG BAGS)	916	866	943	966		888

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)

### Production

Post forecasts Kenya's coffee production will decrease in MY 2022/23 by 10 percent to 700,000 bags due to lower yields as rising fertilizer prices trigger reduced fertilizer application. Currently, fertilizer prices in Kenya stand at KSH 6,000 (\$53) per 50 kg bag, a 71 percent increase from the previous year. The government of Kenya (GOK) announced a \$10 million fertilizer subsidy in March 2022 to partially offset fertilizer prices.

Additionally, yields in MY 2022/23 are expected to decline due to cyclical variations. Arabica coffee undergoes a three-year cycle, with yields increasing over two years and then falling in the third. Many of Kenya's coffee trees are primed to experience declining yields in MY 2022/23 after peaking in MY 2021/22.

Post predicts a slight increase in area harvested in MY 2022/23 from 104,000 to 105,000 hectares as some farmers respond to high coffee prices by rehabilitating abandoned trees in MY 2021/22 for future harvest. MY 2022/23 area planted is anticipated to remain steady at 105,000 hectares as both the creation of new plantations and the conversion of coffee farms into real estate stagnate. Industry sources indicate that the growth of new coffee plantations has been curtailed by a shortage of planting materials, particularly coffee seeds which are primarily supplied by Kenya's Coffee Research Institute (CRI). CRI sells coffee seeds at cost to Kenyan farmers, but seed production has been disrupted due to high production costs and limited resources. Coffee seed production is very labor-intensive, requiring hand pollination and controlled irrigation of coffee trees. This year CRI estimates it will produce .15 tons of coffee seeds for development into seedlings compared to a demand of 1.5 to 2 tons of seeds.

MY 2021/22 production is forecast to increase 20 percent year-on-year to 780,000 bags due to higher yields from good weather conditions and better husbandry. Rainfall in MY 2021/22 was advantageous for arabica coffee, with dry conditions triggering robust flowering followed by nourishing rains during budding. Additionally, higher prices encouraged farmers to invest more in tending to their trees through pruning and other husbandry practices.

### **Marketing**

Over 80 percent of Kenya coffee is marketed by co-operatives, while the remainder is sold by corporate and individually owned businesses. Over 90 percent of coffee in Kenya is sold through the Nairobi Coffee Exchange (NCE), a spot market that has been in existence for nearly 90 years. The rest is sold through "direct sales," which are negotiated contracts between marketing agents on behalf of producers and exporters.

### **Consumption**

Post anticipates a marginal increase in Kenya's domestic coffee consumption in MY 2022/23 from 30,000 to 32,000 bags. While consumption is forecast to rise as Kenya's tourism and restaurant sectors recover following the removal of COVID-19 restrictions, growth in domestic consumption will be constrained by high inflation, which is reducing consumer purchasing power. Coffee consumption is considered a non-essential expense, making it sensitive to changes in purchasing power. Between January and April 2022, Kenya's inflation averaged 6.2 percent, up from 5.2 percent over the same period in 2021. The International Monetary Fund (IMF) forecasts that inflation will further increase to 7.2 percent in 2023.<sup>1</sup>

### **Trade**

Post estimates that coffee exports will decline 11 percent year-on-year to 670,000 bags, as lower domestic production reduces exportable supplies. Although Kenya's coffee attracts relatively high prices compared to coffee from other countries that produce mild arabicas, Kenya coffee accounts for less than one percent of world coffee exports. In MY 2020/21, the United States remained the leading export destination for Kenyan coffee (Table 2). Other key destinations included Belgium, Germany, and South Korea.

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<sup>1</sup> For more on the IMF forecast, see the World Economic Outlook Database here: <https://www.imf.org/en/Publications/WEO/weo-database/2022/April>.

**Table 2: Leading Export Destinations for Kenya Coffee by Marketing Year**

Export Destination	Amount (MT)			Market Share (Percentage)		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21
United States	6,650	8,831	6,512	13.4	19.98	16.57
Belgium	7,903	6,631	6,450	15.93	15.00	16.42
Germany	9,004	8,726	5,644	18.14	19.74	14.36
South Korea	4,146	3,982	3,400	8.35	9.01	8.65
Sweden	2,937	2,703	2,891	5.92	6.11	7.36
Switzerland	1,048	1,415	1,978	2.11	3.2	5.03
Japan	864	760	1,395	1.74	1.72	3.55
Finland	1,452	1,005	1,300	2.93	2.27	3.31
Australia	1,546	1,246	1,251	3.12	2.82	3.19
Norway	1,570	1,359	971	3.17	3.07	2.47

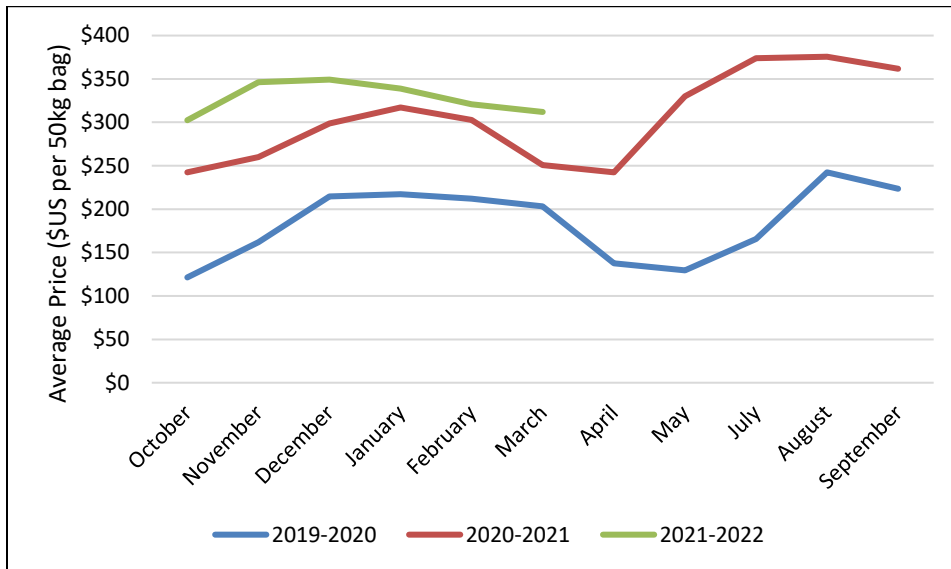
Source: Trade Data Monitor

Kenya imports a small amount of soluble coffee for use in the hospitality sector. Post forecasts soluble coffee imports will increase slightly from 13,000 to 15,000 bags in MY2022/23 as the hospitality sector recovers following the termination of COVID-19 restrictions.

### Prices

Coffee prices at the NCE continued to surge in MY 2021/22 due to increased global demand and lower production in leading producer countries such as Brazil and Vietnam. From October to March, MY 2021/22 coffee prices averaged \$328 per bag, up 18 percent from the same period in MY 2020/21 (Figure 1). Moving into MY 2022/23, industry sources have expressed concerns that inflation in buyer countries will slow demand as consumers curb spending and reduce visits to restaurants and cafes. This lower demand could lead to reduced prices in producer countries.

**Figure 1: NCE Coffee Prices, 2019-2022**



Source: National Coffee Exchange

### **Stocks**

MY 2022/23 ending coffee stocks are expected to hold steady at 171,000 bags, enough to cover exports before the main crop arrives in the market in January. Stocks are largely held by millers, marketing agents, and exporters, while smaller amounts are kept by individual large-scale farmers and co-operatives in the form of parchment coffee.

**Attachments:**

No Attachments