

Coffee froths to new highs as Brazil frost hits crops

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Arabica coffee soared to its highest level since 2014.

Coffee prices surged this week to multi-year peaks, extending stellar gains this year after frost damaged crops in the world's biggest producer Brazil.

The futures price for arabica coffee, one of the South American nation's top commodity exports, soared Friday to just over \$2 a pound, the highest level since 2014.

The commodity has rocketed by a blistering 60 percent since January.

Lower quality robusta coffee, mainly grown in Asia, leapt to an October 2017 peak of \$1,993 per tonne, capping a near 40-percent gain so far this year.

"Several reasons explain the astronomical gains for coffee prices," Rabobank analyst Carlos Mera told AFP, citing mainly the devastating weather conditions in Brazil.

Mera also blamed soaring transportation costs and political unrest in number-three producer, Colombia.

Brazil suffered a historic drought earlier this year.

That was followed by damaging frosts this week at key plantations in Minas Gerais—a southeastern inland state that produces 70 percent of the nation's arabica beans.

Sub-zero temperatures have "sparked defoliation of crops and even kill the youngest plants" that are crucial for future harvests, Mera said.

Arabica has also been heavily impacted because the crop has a biennial plant cycle, whereby low-yield production one year is followed by bumper output the following year.

'Long price crisis'

The market rallied "on freezing temperatures in Brazil growing areas last

night", added Price Futures Group analyst Jack Scoville on Friday.

"Freezing temperatures were reported in much of Minas Gerais and Parana and also in Sao Paulo.

"It is not yet known how extensive the damage was but... a significant part of the crop got hurt.

"It is flowering time for the next crop and the flowers were frozen and will drop off the trees," he added, noting, however, that the weather was now turning warmer.

At the same time, world coffee demand is picking up this year as global economies reopen from the deadly coronavirus turmoil.

That has stimulated demand for arabica which tends to be used in coffee shops and restaurants, unlike the lower grade robusta favoured for making instant coffee granules.

While conditions are ripe for high prices, commodity economist Philippe Chalmin explained that the cost of coffee has been particularly low in recent years, pointing out that a pound of arabica cost more than \$3 in May 2011.

"Coffee producers have experienced a very long price crisis," Valeria Rodriguez, Head of Advocacy & Public Engagement at the fair trade association Max Havelaar, told AFP.

"In the last four or five years, most of them have been working at a loss," she told AFP.

"If the crop is smaller, it means that there are coffee producers somewhere in Brazil who will have no coffee to sell, and therefore no

income," she warned.

Moderate effect for consumers

The rising prices are being passed on to consumers, "but slowly," according to Mera.

"Roasters use the futures market to hedge themselves against short price increases, so it usually takes three to nine months to see the effects at retail level," he explained.

"Even then, the increases at retail level are much more moderate," he said with other components such as transport, packaging and marketing contributing to the retail price.

"Ground coffee is sold on average at 15 euros per kilo and coffee in pods at 45 euros per kilo, or even more," said Rodriguez.

This is far removed from the current price of arabica coffee, which is less than four euros per kilo.

In France, the price of coffee sold in supermarkets has changed very little in recent months and remains close to its 2015 reference price, according to data shared by the national statistics agency.

The current rise in coffee prices is also part of a wider context of inflation in the cost of raw materials, whether agricultural or industrial—with copper and tin both breaking records in recent weeks.

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