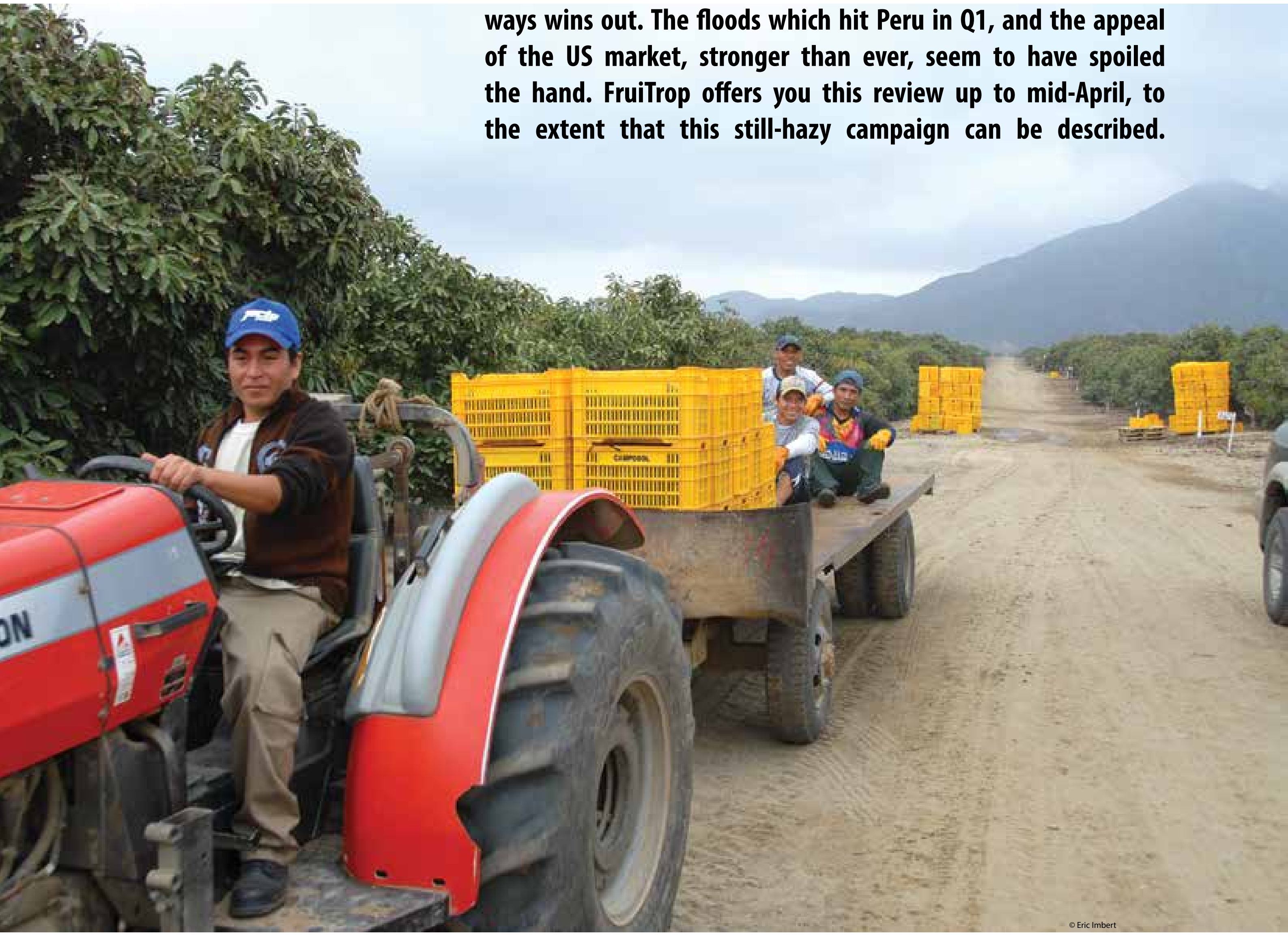
Counter-season avocado in Europe

In the Peruvian mists

2017 was set to be a test campaign on the European summer avocado market, if not a crash test. The magnitude of incoming Peruvian shipments would finally fill a structurally under-supplied market and gauge the real demand level. Yet nature always wins out. The floods which hit Peru in Q1, and the appeal of the US market, stronger than ever, seem to have spoiled the hand. FruiTrop offers you this review up to mid-April, to the extent that this still-hazy campaign can be described.



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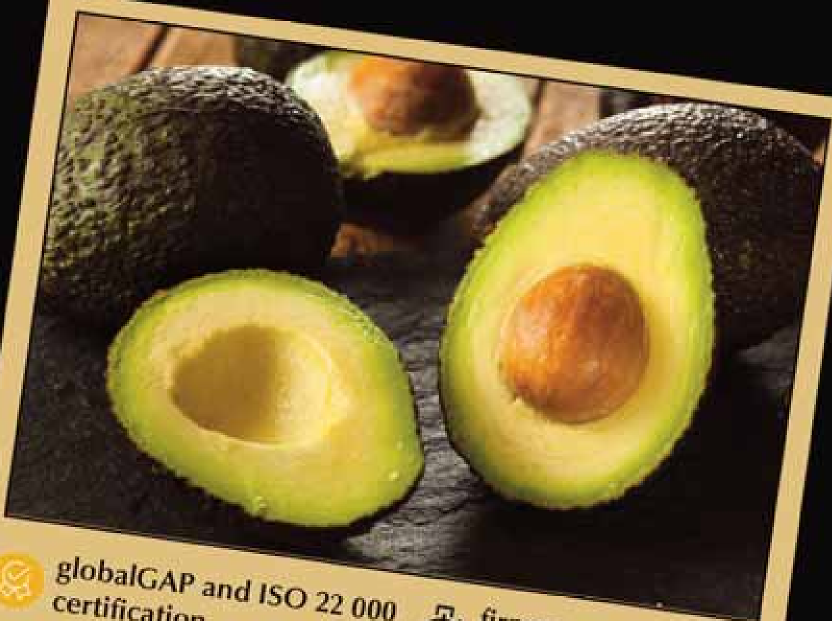

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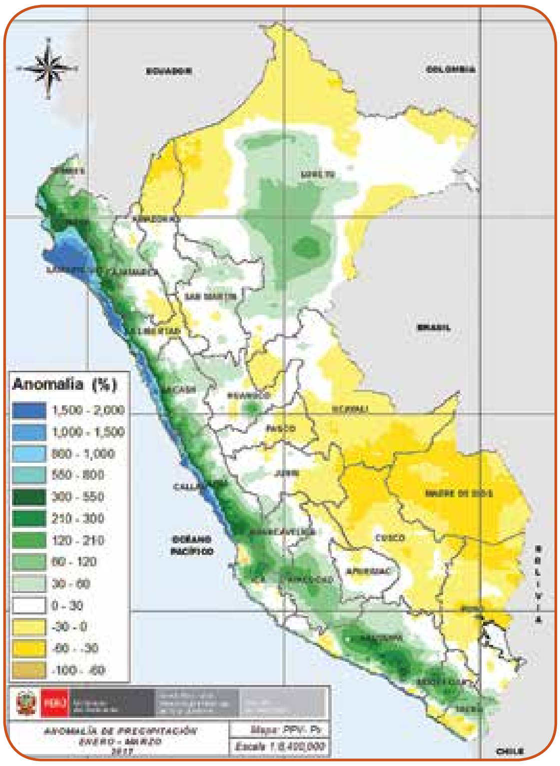
Peru

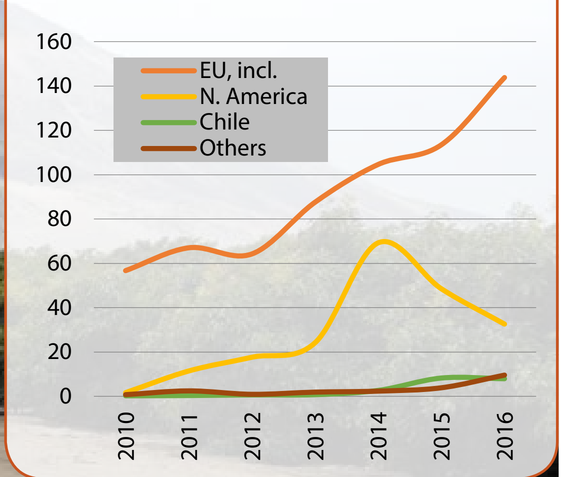
Another meteorological blow

Peru has truly found a losing formula. For the third consecutive year, unfavourable weather should curb growth in production, despite the surge in cultivated surface areas. The fault this season lies with an El Niño Costero phenomenon that might be described, somewhat exaggeratedly, as an El Niño phenomenon geographically concentrated over the Andean region, and producing the same effects, i.e. real deluges; a paradox on this Peruvian coastal strip characterised by a practically desert climate. The far north of the country was particularly hard hit (Piura, Tumbes). However, the rains also reached an exceptional level (10 to 20 greater than normal, according to the Peruvian meteorological services – see map) in major northern production zones, such as the Chavimochic irrigated area (300 mm in the coastal zone of La Libertad Department), and above all the more recently developed area of Olmos (700 mm in Lambayeque Department). These had multiple impacts. Direct losses, still difficult to evaluate at the time of writing, seem relatively limited (10 to 15 % according to certain professionals). The sandy soils are well-drained and the avocado is a sturdy fruit. On this basis, exportable volumes of Hass could be around 215 000 to 220 000 t, and so would still be approximately 20 % more than last season. Conversely, the campaign calendar has been considerably delayed. Firstly, the cloud cover slowed growth and maturation. Secondly, the harvesting and logistics continued to pose problems in early April (flooded orchards, roads and bridges leading to the port of Callao cut off, etc.).

Peru – Rainfall anomalies from January to March 2017



Avocado - Peru - Exports by destination
(in 000 tonnes / source: Sunat)



Avocado – Peru – Exports

in tonnes	2010	2011	2012	2013	2014	2015	2016
EU, of which	56 750	67 050	64 270	87 609	104 650	113 514	143 852
N. America	1 700	11 481	17 675	24 209	69 289	48 568	32 636
Chile	281	400	678	785	2 717	8 294	7 992
Others	790	2 500	953	1 941	2 388	3 901	9 618
Total	**59 521**	**81 431**	**83 576**	**114 544**	**179 044**	**174 277**	**194 098**

Source: Sunat

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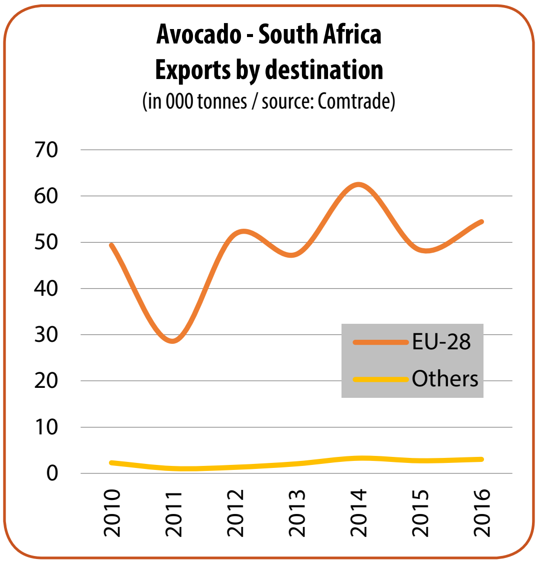
South Africa

Off year, though exports appealing

Unlike Peru, South Africa enjoyed satisfactory climate conditions, after a 2016 marked by drought and by heavy hail storms. The strong winds which hit the Tzaneen zone in January remained highly localised. Nonetheless, the harvest is set to be smaller than in 2016 (- 15 to - 20 % according to the various professionals), because of the adverse alternate bearing effect and the after-effects of the drought (flowering limited by water stress). In this context of moderate volumes, Europe should prevail over the local market, though demand is stronger every year and increasingly interested in Hass. Hence the production fall will be passed on only in part to exports, with the programme down by "a mere" approximately 7.5 % (50 000 t, i.e. 12.5 million boxes). The fall should relate primarily to the green varieties. The fruit sizing is set to be good.



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Avocado – South Africa – Exports

in tonnes	2010	2011	2012	2013	2014	2015	2016
EU-28	49 351	28 582	51 713	47 404	62 499	48 325	54 448
Africa	1 217	57	150	656	765	908	924
Middle East + Mediterranean	627	253	308	362	610	444	898
Asia	430	488	588	486	548	313	502
Russia	-	-	-	534	1 344	950	701
World	**51 631**	**29 614**	**53 016**	**49 460**	**65 772**	**51 046**	**57 473**

Source: Comtrade

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Kenya
An extraordinary drought

The overall panorama is still difficult to perceive for this origin where 70 % of production reportedly relies on small or very small producers. However, it seems that after several seasons of steady rises, Kenyan exports should barely change in 2017. The drought, even more intense than in other years, has affected production for players without irrigation, in terms of both volumes and sizing. Conversely, the logistics seem to be a less limiting aspect. According to certain professionals, actual transport times are tending to shorten (for MSC in particular, thanks to transhipments in Port Abdullah), while the shipping cost has fallen considerably with all charterers, although it remains very high.


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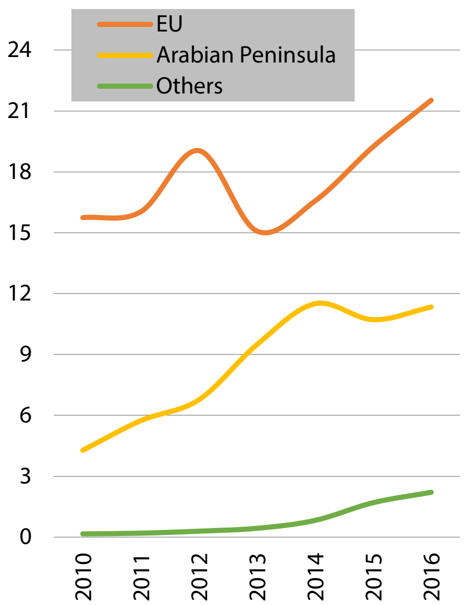
Avocado - Kenya - Exports by destination
(in 000 tonnes / sources: Customs, HCDA)

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Avocado – Kenya – Exports

in tonnes	2010	2011	2012	2013	2014	2015	2016
EU-28	15 743	16 039	19 045	15 079	16 568	19 238	21 529
Arab. Peninsula	4 280	5 741	6 769	9 489	11 502	10 714	11 340
Others	160	194	292	434	824	1 696	2 208
Total	**20 183**	**21 974**	**26 106**	**25 002**	**28 894**	**31 648**	**35 077**

Sources: Customs, HCDA

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Tanzania
Young stock coming into its prime

The outsiders will be the only ones to see a really significant rise in export potential this season. However, available volumes will remain limited (less than 10 000 t across all origins). The Tanzanian harvest is set for a distinct rise, after an adverse alternate bearing effect in 2016. The young Hass cultivated area, estimated at 1 300 ha, is continuing to come into its prime and expand, in both the Mount Rungwe area (south) and the Siha area (north). The export potential should be around 5 000 t, as opposed to approximately 3 000 t in 2016. Despite an intense drought, sizing is set for a very good level thanks to the youth of the stock and the investments made in terms of irrigation.

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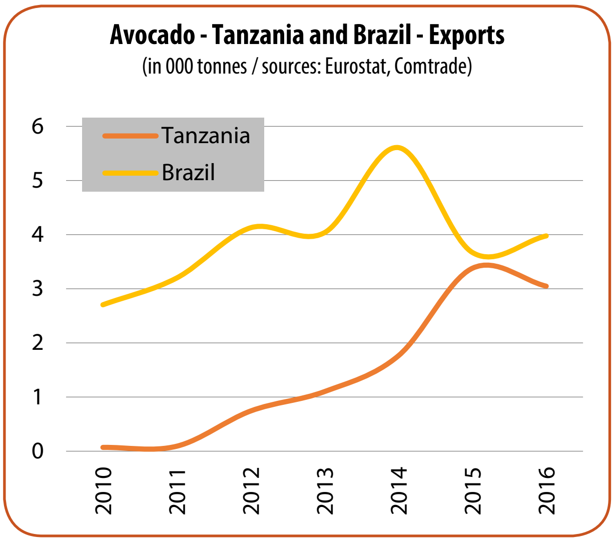
Brazil
A really fine harvest!

Capricious weather can sometimes be synonymous with a bumper harvest. An abnormally cool winter in the Sao Paulo region, plus frost in June, caused intense flowering and so a really fine harvest. Hence despite a local market increasingly interested in Hass (with McDonalds even launching "avo-burgers" there recently!), the export potential should approach 6 000 t, as opposed to less than 4 000 t in 2016. On the flip side, the sizing will be toward the low end, with 20/22 in the majority. The campaign calendar could be a little more concentrated than usual, because of abnormally high humidity.



Mozambique
A new player

The baptism of a new source does not occur all that often. In 2017, Mozambique will export its first Hass avocados aimed at the Community market (400 t programme according to the press). Westfalia, the world's leading player in the sector, is behind this project. According to the initial information gathered, the area planted amounts to approximately 150 ha of Hass and Carmen Hass, located in the south-west of the country (Manica province, close to the border with Zimbabwe). The combination of the climate and the Carmen variety should see the export season begin in January, making an excellent complement to the South African campaign. A second wave of planting is under study, according to the national press.

Avocado – Tanzania – Exports

in tonnes	2010	2011	2012	2013	2014	2015	2016
EU-28	21	6	133	968	1 643	3 278	2 948
Others	49	86	610	133	120	100	100
Total	**70**	**92**	**743**	**1 101**	**1 763**	**3 378**	**3 048**

Sources: Eurostat, Comtrade

Avocado – Brazil – Exports

in tonnes	2010	2011	2012	2013	2014	2015	2016
EU-28	2 665	3 006	3 959	3 928	5 265	3 535	3 908
Others	39	194	168	109	343	136	68
Total	**2 704**	**3 200**	**4 127**	**4 037**	**5 608**	**3 671**	**3 976**

Sources: Eurostat, Comtrade

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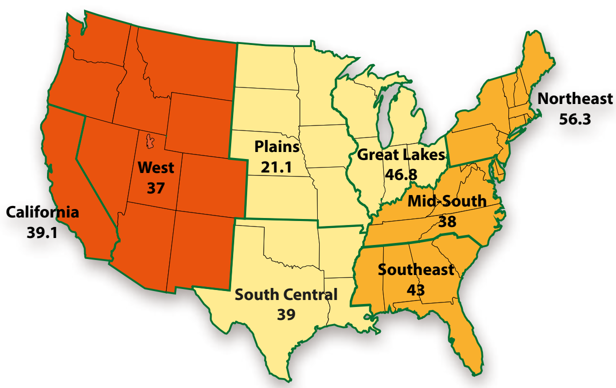
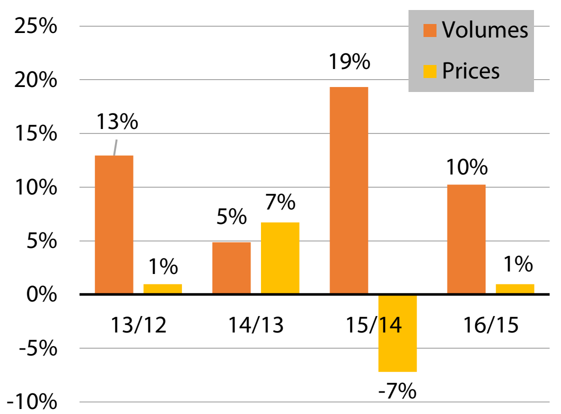
USA - Population by main regions
USA total: 321 million
(in million inhabitants / source: US Census Bureau)



Avocado - United States
Evolution of consumption and import prices
(calendar year / source: HAB)



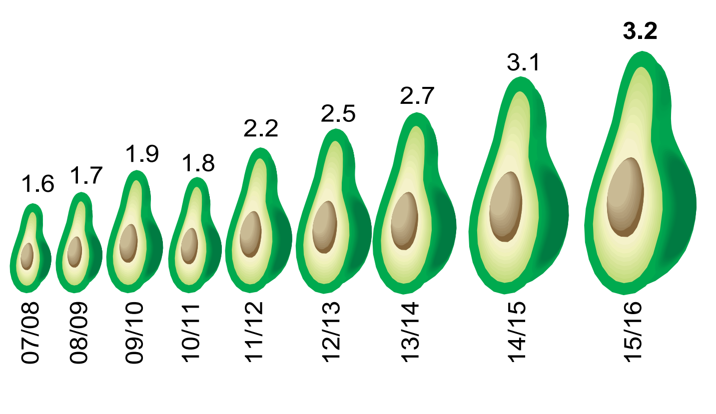
Uncle Sam as arbiter of the peace

While the cumulative export potential of the suppliers to Europe seems to be greater than in 2016, what about the division of these volumes between the world's two main markets? It has to be recognised that the pulling power of the US market seems stronger than ever. Our price indicator was above 50 USD per 11.14-kg box in early April, an unprecedented level for this time of year, and actually considerably higher than the rates charged at this time in the EU, themselves at record levels (nearly 17 euros per 4-kg box, as opposed to just over 15 on the Old Continent), not to mention the freight price difference.

Appetite for Hass undiminished on the other side of the Pond

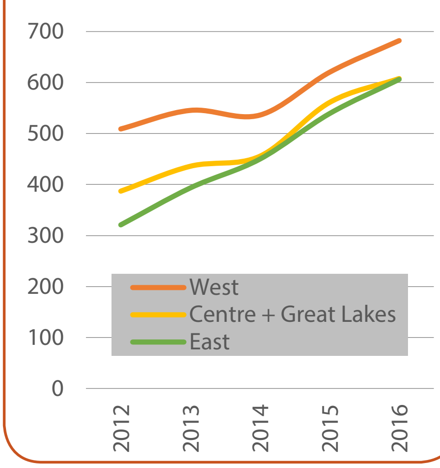
It is a good bet that prices will continue to soar on the other side of the Pond, for reasons relating both to supply and demand. The 2016 figures show that the US consumption growth dynamic is not flagging. Despite a second half marked by a shortage of Mexican fruit, the market was up by approximately 10 %, with prices maintaining a similar level to last season. Even the super-consuming regions of the American West continued to exhibit an incredible dynamic (up by between 6 and 14 % depending on the zones). There is no magic formula, just the result of the promotion approach, as powerful as it is well oiled, orchestrated by the HAB and backed up by millions of dollars (a budget of 56 million USD for 2016, to be precise).

Avocado - USA - Consumption
kg per capita
From November to October



Sources: CAC, US customs

Avocado - United States
Consumption by main regions
(in million pieces / source: HAB)



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Mexico
Smaller production, with plenty of speculation?

The supply available to feed the US summer market is another factor pointing to prices remaining high this season. The market's main suppliers are both in shortfall, starting with Mexico which still accounts for between 55 and 65 % of the supply to the United States between May and June. Michoacán, even with its massive 150 000 ha of orchards, did not escape the natural alternate bearing phenomenon in 2016-17. Furthermore, it would seem that the compensatory role played by the entry of newly approved surface areas into the export programme to the United States has been less significant. Despite the growth in surface areas, eligible orchards appear harder to find (approximately 110 000 ha of the State's 150 000 ha already included in the programme). Hence the 2016-17 campaign should be marked by an unprecedented fall in Mexican exports to the United States, as would seem to be indicated by the 15 % fall from the previous season in cumulative exports by the end of March. What about the volumes still available? While all the professionals agree that volumes are smaller than in 2016, the extent of the shortfall is still unclear. Many operators lament the degree of speculation in the industry, culminating in a halt of more than ten days last October. This episode made a lasting impression, seriously tarnishing the brand image of Mexico for many US importers, left unable to cover their commitments with the supermarket sector. In any event, shipments should fall considerably after the wave of promotions for the 5 of May holiday, before becoming very limited in June.

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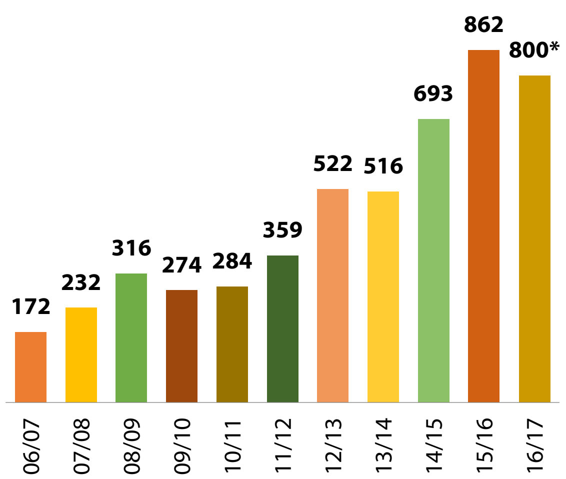
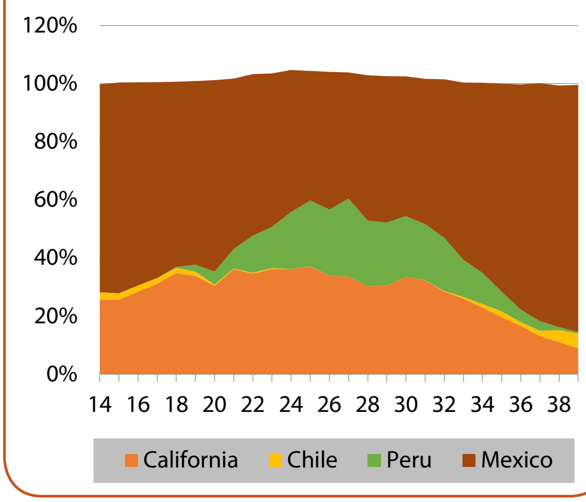
Avocado - Mexico - Exports to the USA
(in 000 tonnes / source: Mexican Customs)
* estimate



Avocado - USA - Weekly supply by sources from April to September - 2013-2016 average
(source: HAB)



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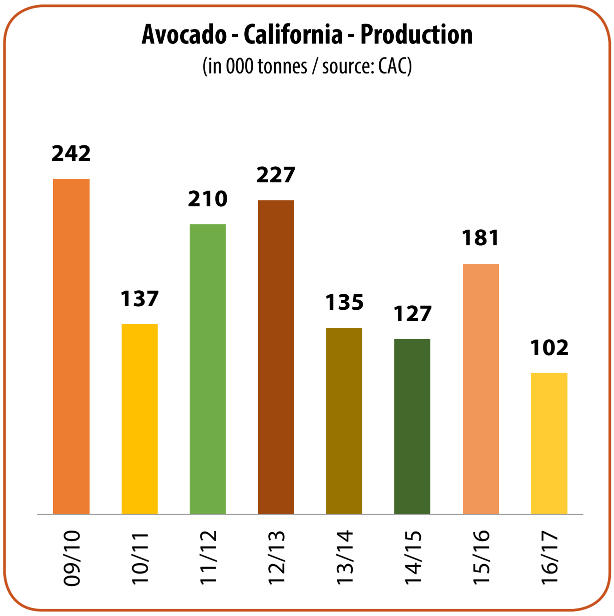
Growers at heart

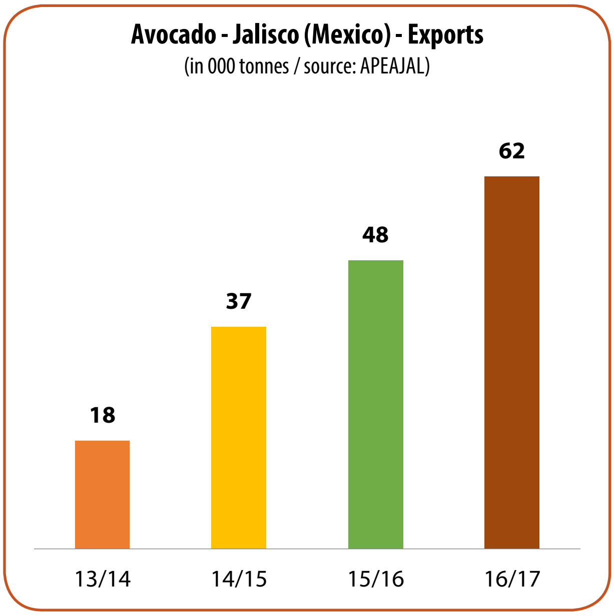
California
Dried up

Is the yoyo a Californian speciality? We were just wondering given the huge difference between the very small harvest expected this season and the very big volumes from the previous campaign (barely more than 100 000 t in 2017, as opposed to more than 180 000 t in 2016). This extremely marked alternate bearing effect, though usual for this region, is due to a heatwave in spring 2016 which hit flowering hard. The trading calendar is currently ahead of the forecasts, with the US market particularly appealing and sizing boosted by the long awaited massive rainy period at the beginning of the year. Hence the shortfall, big throughout the season, could be more marked in the second half of the campaign, with the CAC's projections actually reckoning on volumes waning from late July.



Jalisco
In not such good trim...

Will Jalisco be able to reduce the shortfall in the supply to the US market in the coming months? Perhaps: access to the giant neighbouring market now seems imminent, and more subject to political than technical factors (first shipment blocked at the last minute in January, probably in retaliation to Mexico's ban on US potatoes). Nonetheless, the volumes involved will not be enough to rein back the prices. Only 12 000 ha of the State's 17 000 Hass cultivated area are in zones free from quarantine diseases. Furthermore, not all these avocado orchards have been approved. The volumes involved for the whole campaign vary depending on the sources, from 13 000 t (USDA projection from June 2016, which reckoned on approximately 1 300 ha of orchards being ready to export) to 50 000-60 000 t (estimates by certain professionals based instead on 6 000 ha).



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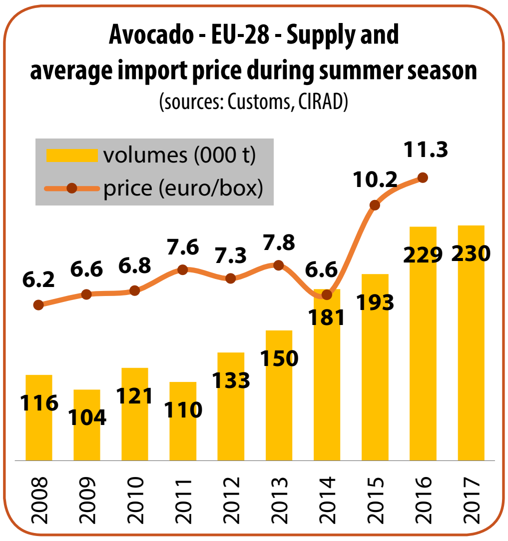
Smaller Peruvian volumes than expected to Europe and a similar overall supply to 2016?

This extremely promising context could attract bigger Peruvian volumes than expected to the United States, especially since Peruvian exporters and US importers could be keener than usual to work together, though for different reasons. On the downstream side, having an alternative to Mexico, even in part, seems to have become a strategic avenue for reasons relating to the origin's reliability mentioned above. On the upstream side, shipping to a market situated just ten days or so away by sea would certainly be a safer option than the 17-25 day voyage to Europe, if the fruits have been weakened by extreme weather. Hence although the outline of this campaign is still fairly unclear, it is evident we might question the initial projection for Peruvian exports to Europe, predicting a steep rise of more than 20 %. Taking into account the production losses and the appeal of the US market, can we imagine that ultimately shipments to the EU-28 will be fairly similar to last year? Perhaps: in which case the supply to the European market across all origins should not be so different from 2016, while demand has risen again, with growth rate in double figures, during this winter campaign (approximately 15 to 20 % – see winter review).



Toward high prices, if the danger period of June is successfully negotiated

If this prospect comes true — reiterating once more that the situation in Peru is still hazy — prices should maintain a very good level during this counter-season campaign currently starting. Nonetheless there are still some dangers to avoid. The period of steeply rising Peruvian shipments, which should come in June rather than late May this season, will more than ever be a risky time. The exceptional opening of the European market could cause a massive influx of fruits as soon as the logistics get up and running again. Furthermore, will the dry matter content (still low at present) and the shelf life of the incoming fruits be beyond reproach? The issue of post-harvest too will be a major challenge throughout this season, in particular in a country where operators are unused to treating fruits that have undergone periods of high humidity. So the upstream segment will need to apply plenty of rigour, in managing both the fruits and the volumes. Finally demand, quietened by retail prices never previously reached, will need to be revitalised.

Avocado – Southern Hemisphere Exports to EU-28

in tonnes	2016	2017 trend
Peru	144 367	=
Southern Africa	54 095	↘ 10 %
Kenya	23 444	= ↘
Brazil	3 908	↗ 50 %
Tanzania	2 948	↗ 60 %
Total	**228 761**	**=**

Sources: Customs, CIRAD

Avocado – Southern Hemisphere – Exports by source

in tonnes	2009	2010	2011	2012	2013	2014	2015	2016
Peru	45 661	56 345	66 155	62 618	86 260	101 971	114 321	144 367
Southern Africa*	38 821	47 800	27 375	49 083	45 165	56 713	50 962	54 095
Kenya	15 038	14 123	15 028	17 078	13 313	15 604	20 728	23 444
Brazil	2 797	2 665	3 006	3 959	3 928	5 265	3 535	3 908
Tanzania	6	21	6	133	968	1 643	3 278	2 948
Others	353	113	79	306	300	447	497	337
Argentina	1 984	-	372	114	158	43	78	133
Total	**104 659**	**121 067**	**112 021**	**133 291**	**150 092**	**181 686**	**193 399**	**229 231**

*South Africa + Zimbabwe + Swaziland / Sources: Customs, CIRAD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Sizing, the other major challenge for this campaign

While the supply level seems readily manageable, assuming the absence of major hiccups, what about the breakdown by size? The US market craves large fruits, which are abundant in the "small" Californian supply, but much scarcer than usual in the Mexican supply, which still represents the bulk of the market supply in Q2. According to professional sources, most of the Mexican supply yet to be sold in early April comprised size 20 fruits and above (as opposed to 20 % size 14 and 30 % size 16/18), for which the prices charged in the United States are much lower (approximately 50 USD in mid-April for 40/48, but barely more than 40 USD for 60 and 35 to 40 USD for 70). In this context should we not be wary of a larger proportion of small fruits than usual in the Peruvian supply bound for the EU-28, especially since production from the northernmost zones, exporting for the first time this season, seems to match this type of profile? This is a point that bears watching, in particular when a large proportion of the Kenyan supply, whose position depends on its price competitiveness, appears to be small-sized.

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Promotion still a strategic challenge

The rather optimistic prospects for this campaign, difficult though it will be to manage, must not overshadow the medium-term prospects. The production growth of the countries feeding the counter-season market, already very high, is tending to gather pace. The figures are climbing ever higher in Peru, where the cultivation area, already 25 000 ha strong, is continuing to expand at a frenetic rate. ProHass is reckoning on 35 000 ha of avocado orchards in 2021, i.e. an export potential 2 to 3 times greater than the current 200 000 t; and this is within highly conservative assumptions. True, the export window is tending to expand, with in particular the large-scale plantations set up in the early zones, though volumes are nonetheless enormous. Similarly, South Africa is gathering pace with a planting rate closer to 1 000 ha per year at present than to the 500 ha in previous years, thanks in particular to investments made by major nurseries to increase their production capacity. There too, it is the zones or varieties able to extend the trading calendar which are being targeted. The situation is more difficult to perceive in Kenya, yet the potential is there and the cultivation area also seems to be progressing (between 500 and 1 000 ha per year, depending on the sources). Finally, the outsiders are not to be outdone. Brazil should plant between 400 and 500 ha of Hass in 2017, while the Tanzanian cultivation area is also expanding between the two traditional players, and another project is under consideration. Finally, Mozambique is getting started. True, there is major potential on the world market, but is Peru not setting too high a tempo? The test will come perhaps in 2018, when the Mexican supply to the US and the Peruvian production level are set to be on a different level ■

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YOUR AVOCADO SPECIALIST FOR MORE THAN 25 YEARS.

Our ambitions, to offer you ripening solutions tailored to your requirements. Backed up by a structure with cutting-edge technologies, our know-how dedicated to ready-to-eat and triggered fruit, and all types of packing, is based primarily on the experience of our teams.

Our commitments, providing you with a daily service from the sources Brazil, Chile, Colombia, Dominican Republic, Israel, Kenya, Mexico, Peru, South Africa, Spain, Tanzania, Zimbabwe... with optimum quality ensured all year round.

Our expertise, the ability to develop partnerships based on quality projects, and jointly anticipate new market developments.

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