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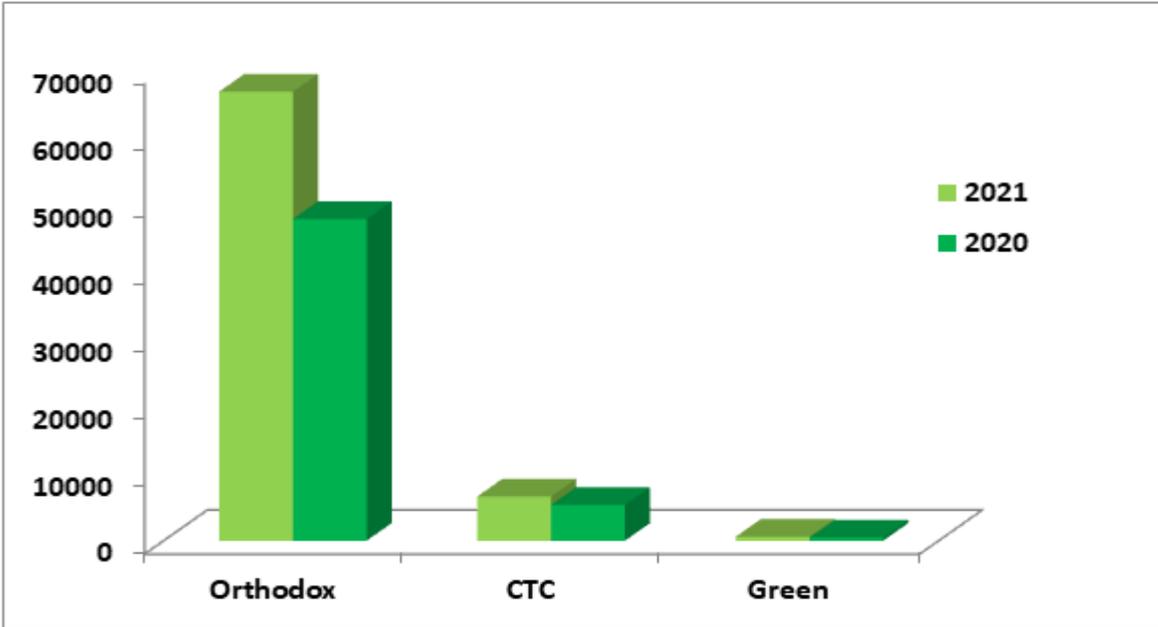
Tea Exporters Association
Sri Lanka

NEWSLETTER

April 2021

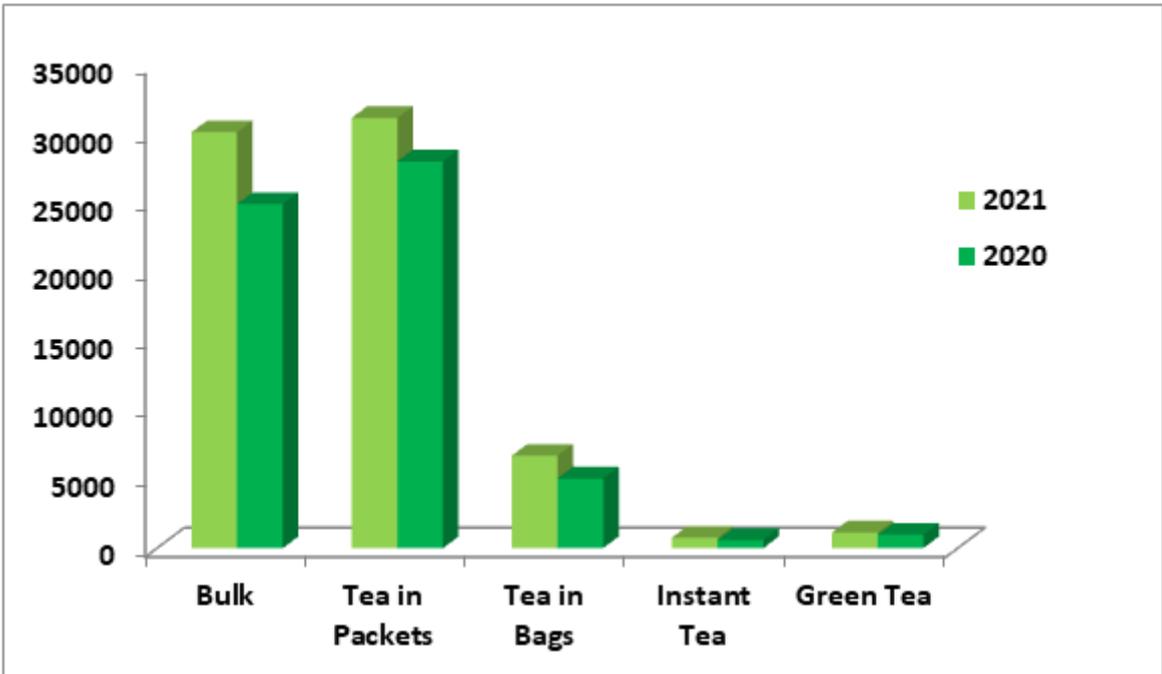


SRI LANKA TEA PRODUCTION - JANUARY TO MARCH 2021/2020 - in MT

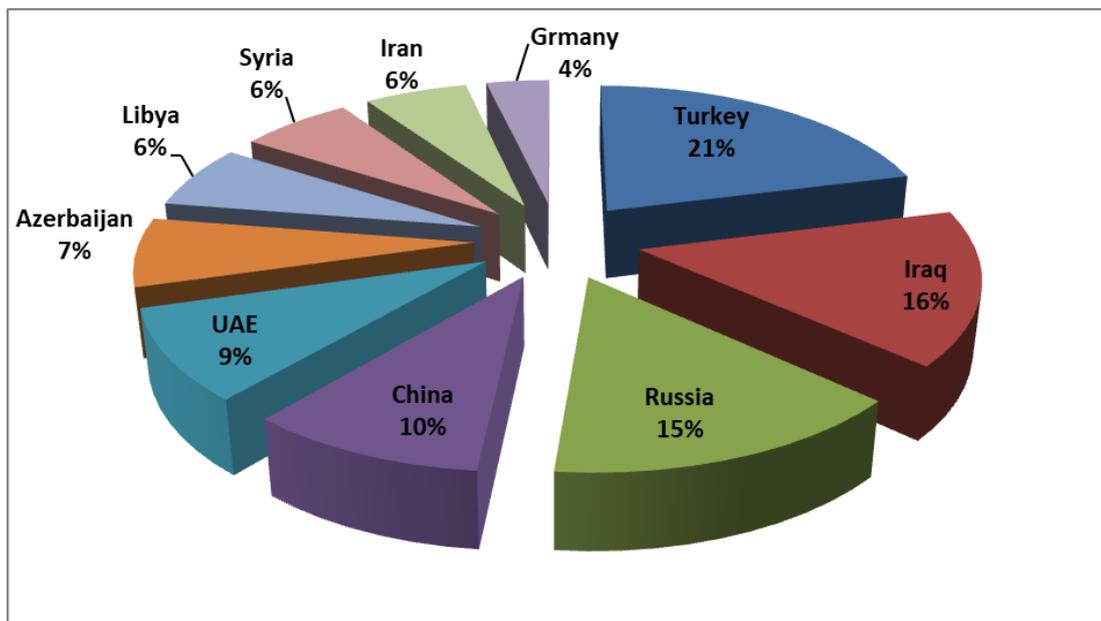


(SLTB)

SRI LANKA TEA EXPORTS - JANUARY TO MARCH 2021/2020 - in MT



MAJOR IMPORTERS OF SRI LANKA TEA - JANUARY TO MARCH 2021 - in MT



(SL Customs - Courtesy Forbes & Walker Tea Brokers)

World Tea Crop

The latest tea crop figures of some leading tea producing countries are furnished below (in million Kg).

Country	Period	2020	2021	Variance
Bangladesh	January to March	1.82	1.98	0.16
Kenya	January to February	102.83	92.29	(10.54)
North India	January to February	1.28	2.18	0.9
South India	January to February	29.32	31.35	2.03
Malawi	January to February	13.9	14.2	0.7

(Forbes & Walker Tea Brokers)

Summary of developments in the major producing countries - April

In line with the release of China exports statistics last year, when data covering combined exports of January and February were made available in the early days of the pandemic, China Customs have released exports data covering the first two months of this year. Exports record a growth of 25% compared with the same period last year but compared with 2019, it is lower by 10%.

There has been no respite from the dry weather conditions that continue to prevail in North India and the alarming spread of Covid-19 is expected to have a significant impact on production, transport and trading of tea over the coming months. The Rupee-Rial mechanism in place for payment to cover exports to Iran since 2018 is understood to be facing a challenge as a result of reduced oil imports by India.

In Kenya, the regulatory reforms taking place within the tea sector currently is expected to lead to a realignment of the tea sector management with the improvement of farmer welfare in mind. Led by increased purchasing by Pakistan, exports in the first two months record a growth of 8%.

Weekly Auctions

Mombasa

Market remained just about steady at the first sale of the month where Egypt, UK, Sudan, Kazakhstan and rest of the CIS countries lent strong support. In the following two weeks, there was improved demand at steady price levels. The best BP1's, PD's and PF1's were sought after at the final sale of the month following quality.

Colombo

Price levels for a majority of low-grown teas eased in the first week but most of the high-grown BOP's and BOPF's were firm to dearer. No auction was held during the second week. At the next auction held during the third week, the low-grown teas met with less demand as a result of several factors such as the depreciation of the Turkish Lira and Covid-19 related restrictions in several markets but BOPF's from High & Medium elevations met with strong demand. The larger volume on offer at the final sale of the month met with mixed demand.

Kolkata

Demand was noticeably stronger at the first sale of the month which was not maintained at the following week's auction and the market weakened further at the following two sales.

Guwahathi

A firm to dearer market was witnessed for the small quantity on offer at the first sale of the month. No auction was held in the second week. There was fair demand at easier rates at the following two sales.

Kochi

Prices declined at the first sale of the month, particularly the CTC teas. There was a weaker tone in the market the week after. Demand continued to weaken further at the next two auctions but CTC teas did find a dearer market at the final sale of the month.

Chittagong

No auctions took place during the month of April.

Jakarta

There was good demand for both orthodox and CTC teas at the first sale of the month where the quantity on offer was limited. Less interest was evident the following week with most teas selling at reduced price levels. The large quantity on offer at the following sale met with irregular demand with the better lines firm to dearer and the rest declining. There was good demand at slightly easier rates at the next sale.

Limbe

At the first sale of the month, prices improved following the weak demand in the previous week. Demand strengthened at the next sale with prices firm to dearer and this trend continued the following week, where bright, coloury teas were sought after. The market strengthened further at the following sale.

(International Tea Committee and Courtesy: Forbes & Walker Tea Brokers)



Exports rebound in March

The strong performance in March (up 62.4% year-on-year) helped to boost merchandise exports earnings in the first quarter by 11.51% to \$ 2.6 billion. "Sri Lanka's exports show a remarkable rise despite the current pandemic situation across the world," Export Development Board (EDB) Chairman said.

The EDB is forecasting a performance of \$ 15.68 billion in merchandise and service shipments in 2021. EDB in 2021 expects \$ 12 billion from merchandise exports and \$ 3.58 billion from services exports.

Earnings from the export of major sectors such as apparel, tea, rubber-based products, coconut-based products, spices and electrical and electronic components, improved in March as well as during the first quarter compared to 2020.

Earnings from tea which consists 12% of total exports increased by 99.33% YoY to \$ 125 million, whilst the export volume increased by 86.69% in March compared to the same period last year. First quarter tea exports also increased by 25.2% to \$ 338 million compared to \$ 270 million in the same period a year earlier. It is believed that the improved performance is due to the demand growth in China and some Middle East countries.



Being the largest single export destination during the first quarter as well as in March, the US has absorbed \$ 715.4 million worth of exports in the first quarter of 2021, showing a marginal increase of 0.94 % in comparison to \$ 708.76 million recorded in the same period a year earlier.

(Daily FT)

Lower Crop in India

The crop prospect in the current season for the tea industry in Assam and West Bengal looks bleak due to the drought-like situation prevailing in both the states, a leading industry body said.

Tea Association of India (TAI) said that after the aftermath of prolonged period of lockdown and losing around 140 million kgs of made tea last year, the tea industry in north was hopeful for a fresh start in 2021, but is again foreseeing grim days ahead, faced as it is with the onslaught of natural calamities resulting in lesser crops.

In a statement, TAI said that the situation has worsened due to the recent massive hailstorm in the tea-growing regions of north Bengal.

According to the TAI, Assam has harvested only 0.23 million kg during the period of January-February this year as against 0.27 million kg last year and 0.44 million kg in 2019. It said that while the crop figure for the month of March is yet to be released by the Tea Board, the figure is expected to lower by around 10-15 per cent in March and April this year as compared to 2019.

"Similarly, north Bengal has harvested only 1.92 million kg this year as against 4.04 million kg in 2019 during January-February," TAI said.

It said that there is huge less rainfall recorded during January and February both in Assam and in north Bengal and the situation has worsened during the months of March and April as reported by the tea estates of both the states.



The TAI states that Assam produces around 4.5 per cent of its total crop in the month of March and around 6 per cent in April which is around 32 million kg and 44 million kg, respectively. Similarly, West Bengal also produces around 5.5 to 6 per cent of its total crop in March and April amounting to around 23-25 million kg.

"The figure is expected to be lower by around 10-15 per cent in the month of March and April as compared to the corresponding period of 2019," the tea industry body said.

(Economic Times)

Government ups fight with embattled tea agency bosses

The Kenyan government has vowed not to leave any 'Tea leaf' unturned in its effort to reform the tea sector even as it continues to push for implementation of the Tea Act 2020.

This, it notes, will ensure tea farmers get their fair share of the crop and do away with middlemen who have infiltrated the sector. Agriculture Cabinet Secretary, while addressing editors at a media breakfast in Nairobi recently, also termed Kenya Tea Development Agency (KTDA) the biggest impediment to improving the sector.

The President last month ordered Attorney-General "to conduct an inquiry into the alleged statutory and regulatory compliance breaches allegedly committed by KTDA and its directors". that includes "potential price and auction manipulation, abuse of dominance, insider trading, wastefulness and breach of directors' fiduciary duties".

The inquiry will look into KTDA's activities and those of its subsidiaries, including KTDA Management Services, Chai Trading Company, Kenya Tea Packers, Majani Insurance Brokers, Greenland Fedha, The Tea Machinery and Engineering Company, KTDA Power Company and Dubai-based KTDA DMCC.



He said the government is not fighting KTDA but its agenda is to review the sector. The government is focused on agriculture since 80 per cent of Kenyans are directly and indirectly earning a living from the sector. The CS said despite the attractiveness of the sector, it has been neglected; a move that has allowed organized crime. The CS said there is a conflict of interest among directors in KTDA among many other ills that are at the center of investigations. The CS said the government will help farmers to exercise their rights by providing logistical support and security.

This comes a few days after detectives from the Directorate of Criminal Investigations' Serious Crime Unit (DCI) raided KTDA head offices in Nairobi.

(Standard Media)

Kenya plans for five days Auction

Mombasa Tea Auction will start operating for five days in a week in order to enhance its capacity to handle all tea produced in the country and the region.

The increase in the number of trading days will take place after auction regulations are enacted as stipulated in the Tea Act 2020.

The new sale system installed at a cost of Sh 217 million from the Danish International Development Agency as the main donor and the Trade Mark East Africa (TMEA), will enable players to operate it from their homes and offices.

Agriculture Cabinet Secretary noted that initially the tea auction was being operated three days in a week but since the trading has gone electronic and the catalogues can now be generated online, it was time to move on and increase the time.

“It is important to note that tea auctions should now be held throughout the week and not necessarily the three days as currently designated by the East African Tea Traders Association (EATTA) Secretariat,” he said.

In a statement on the operations of the Tea Auction, he further said that absorption of tea on offer should be enhanced since the system should be able to automatically re-list the tea for sale the same day of auction, saying this coupled with anonymous bidding, should enhance price discovery mechanism for the tea at sale.

“All this is being done under the new tea reforms which are being instituted by the government for the benefit of enhancing accountability and transparency in the industry, even as some value chain players are vehemently opposing them,” CS stressed.

The Mombasa Tea Auction for example is owned and run by value chain players, with the Kenya Tea Development Authority (KTDA), being one of the most dominant players.

On last Friday’s operations for scrutiny and investigations by officers from the Attorney General (AG) Office, the CS refuted claims that there was disruption, saying the week’s schedule was managed and requisite auctions executed.

“Reports carried in the section of the media indicating that operations by AG at the Mombasa Tea Auction secretariat offices adversely affected regular auction schedule is therefore not true” he affirmed. Munya explained that EATTA Secretariat allowed the AG office to complete its inquiry on Monday and that all the three auctions were held within two days instead of three with 12.64 million Kilograms offered for sale hence no negative impact on the trading.



On the rescheduling of the trading that was done by EATTA, the CS said was unwarranted, as the inquiry would not have in any way interrupted the subsequent trading as the auction is conducted online and the trading platform is web based.

The volume of tea offered and sold on a weekly basis also varies from eight to 13 million Kilograms, depending on the season, while the average value for the tea sold is about Sh 2 billion.

The new Tea Act 2020, Government banned direct sale of tea and instead directed that all tea produced locally be sold through the Auction.

(Kenya News Agency)

China to support tea growing in Pakistan

China prepares to share its experience for black tea production with Pakistan, says a report published by China Economic Net (CEN).

Tea industry can be a promising industry for China and Pakistan to cooperate and China can share its’ experience, said the secretary-general of Guizhou Tea Association in China. “As long as the quantity is large, the cost can be lowered. We can make breakthroughs in technology and increase productivity.” he has stated.

The report says Pakistan is the third largest tea importer in the world. They consume a lot of imported tea every year. In July to February period of the present financial year, Pakistan's tea import costs \$379.3 million. "Tea leaves are small, but it plays a big role in poverty alleviation in Guizhou. The development of the tea industry is an effective way to promote rural employment and boost farmers' income."

"Broken tea from China and Pakistan can be blended and make new products for the international market," said Deputy Director of Tea Research Institute, Yunnan Academy of Agricultural Sciences. Yunnan has many advantages in developing the black tea industry. "One is that the ecological environment is very good and the quality of tea is very high. Second, the variety of Yunnan black tea is very unique, which is rich in nutrients and contains very high levels of tea polyphenols and theaflavins." He said.



In Pakistan, the demand for broken black tea is high. Broken black tea is mainly used to make teabags. Its price is not high in China. Yunnan is also searching for ways to increase its export." According to him, broken black tea has the highest level of mechanization among black tea products. "Tea trees are perennials and can only be planted artificially. Trimming and picking machines are used in tea garden management. After picking, tea leaves will be processed into broken black tea with CTC combined machines. The higher the degree of mechanization, the lower the cost. Mechanization can also guarantee the quality." He said

"Pakistan can produce high-quality broken black tea, and its climate is very suitable," said He Qingyuan "Most of the raw materials for broken black tea in Pakistan are a species called Assam tea, which was introduced from India, while the Indian Assam tea was originated from Yunnan." He added.

(China Economic Net)

South Africans love Rooibos

Among South African 31 million-strong tea-drinking population, many already consider Rooibos to be the darling of the teas, but now new independent research confirms this.

According to market research agency, Insight Survey's latest South African Tea Industry report, SA tea-lovers are shifting to a preference for Rooibos rather than Black Tea.

A spokesperson for the Rooibos Council says although Black Tea still has a higher overall consumption than Rooibos, it is experiencing a steady decline, whereas Rooibos tea is showing growth both locally and even more so globally.

South Africa is a net importer of tea and coffee and its tea production is in decline. ITC reports that annual tea production has now come down to 3.6 million kg. The herbal tea sector, which includes rooibos, green tea and fruit/herbal tea, is growing due to growing interest in health and wellness. The increasing global demand for rooibos has seen exports increase from 6,000 tons in 2016 to 7,693 tons in 2019.

Coffee consumption too continues to increase, and the growing coffee culture has seen many entrepreneurs enter the sector. But the coronavirus pandemic has caused devastation for coffee shops and restaurants.

The total value of the South African tea market had increased significantly, with a compound annual growth rate of 12.1%, in last 5-7 years. The strongest value (and volume) growth was achieved by rooibos, green tea and fruit/herbal tea, rather than the relatively modest value growth of 7% for black tea. However, the total tea market volume had actually declined by more than 10% over the same period, almost exclusively due to the decline in black tea volume.

A tea import by the country has come down from 26 million kg to 21.5 million kg over 2015-2019 period according to ITC statistics. After adjusting for about 5 million kg of re-exports, the net tea imports are in the region of 16 million kg in 2019 compared to 20 million kg in 2015. Malawi (11 MKG), Zimbabwe (5 MKG) and Tanzania (2 MKG) are the leading suppliers of tea to South Africa. "The proportion of Black Tea consumers had decreased to around 50% while the percentage of South African Rooibos consumers increased to around 35 % in the last ten year period.

He attributes this shift in consumption behavior, primarily to the health benefits of Rooibos becoming more well-known. The majority of consumers are now looking for healthier alternatives to sugar-rich carbonated beverages, and Rooibos tea offers them that solution."

"Rooibos is especially high in antioxidants, which help to protect the body against various ailments such as allergies, stomach cramps, colds and flu, as well as more serious illnesses like heart disease and diabetes. It can also reduce one's risk of contracting cancer.

"Two polyphenols, called aspalathin and nothofagin, in particular, are found in high concentrations in Rooibos tea. These antioxidants help fight free radicals in the body that are responsible for many illnesses. Polyphenols not only have anti-inflammatory properties which safeguard the body from disease, but also has the ability to slow down the ageing process, which is an added bonus of drinking Rooibos.

"Rooibos tea is absolutely free of caffeine and low in tannin, and helps to support iron levels in the body. Its naturally sweet and fruity taste means you also don't need to sweeten it with sugar or artificial sweeteners. You can enjoy it as is, while reaping all of its health benefits," he further states.

The demand for Rooibos tea is also growing overseas and the recently signed EU-SADC Economic Partnership Agreement (EPA), not only extends the geographical indicator (GI) status or trademark protection of Rooibos, but will also widen economic trade between Europe and South Africa, and the five other SADC states.



South Africa currently exports Rooibos tea to over 30 countries, including Germany, the Netherlands, Japan, UK and US. Germany by far still remains the biggest importer of Rooibos tea at 31%, with the Netherlands at 16% and Japan at 15%.

The report also highlights the growth potential of the iced tea market as the demand for the consumption of healthy tea increases.

(Yahoo Finance)

Dark tea vitalizes rural life in Hunan village

A major place of origin for Chinese dark tea, Anhua produced 85,000 metric tons last year, with an output value of 23 billion yuan (\$3.5 billion), according to the county government. Its products are sold worldwide. In 2019, Hunan released a plan to construct characteristic agricultural towns by offering preferential policies in land use, finance and human resources. It wanted to drive development of rural areas under the framework of rural vitalization. It has now developed a tea-related industrial chain from production and sales, agricultural scientific research and healthcare, to tea-related culture and the ecotourism industry.

The leaves they picked will be processed into dark tea after close to a dozen complex procedures, including spreading, heating, kneading, fermenting and drying. While the color of the leaves turns dark, the fresh aroma also becomes a strong, pure fragrance when it rises from a cup of glowing red tea.

The transformation from fresh leaves to ready-to-sell products generally takes five to 12 months, based on the different requirements of subcategories. Over the last 1,000 years, the manufacturing process of Anhua dark tea has been passed down from generation to generation, and it was named a national intangible cultural heritage in 2008.

Anhua welcomed 26,000 tourist trips during the Chinese holiday, reaping tourism revenue of 25.2 million yuan, according to the county government.

The booming tea businesses also benefit farmers. More than 100,000 people from poor families in Anhua have escaped poverty by joining tea-related industries.

Developing industries in rural areas based on their special resources is an important measure in realizing the country's rural vitalization strategy, according to the central rural work conference held in Beijing in December.



To improve brand awareness, the county government innovated by producing more high value-added commodities, including tea-sourced snacks, beverages and cosmetics. Anhua also built the country's first dark tea vocational school and dark tea research institute.

"By investing more in technology, we plan to promote large-scale planting, improve processing efficiency and innovate more new products," the county's Party secretary, said.

(China Daily)

New Style Tea - China

China's tea culture has undergone drastic changes in recent years as companies have rebranded the once-staid beverage as a high-end, fresh, and healthy consumer experience. The resulting products, known colloquially as "new-style teas," are big business. According to the 2020 New-Style Tea Drink Report, the market for new-style teas grew from 44 billion Yuan in 2017 to 102 billion Yuan last year. Most of these sales are to young consumers: Chinese born in the 1990s and 2000s account for almost 70% of new-style tea sales, and 27% of them reported spending more than 400 Yuan a month on new-style teas.

The new brands made their mark by offering a more diverse range of tea bases, often with extras like seasonal fruit, sparkling water, cream cheese, or nuts. These extras don't come cheap, and the explosive growth of new-style tea brands like Hey Tea has split China's tea market into at least two tiers. The pioneers of the second wave, such as Coco and Alittle Tea, have largely kept prices below 20 Yuan, even on new-style teas, while Hey Tea and rival Nayuki have aimed for a more upscale market, selling teas and other beverages for between 20-30 Yuan, or roughly the price of a Starbucks latte.

The viability of this business model owes much to China's widespread, though still uneven, embrace of high-end consumerism says general manager of the market research firm Kantar World panel China. "Mothers with refined tastes," urban white-collar workers, and those born after 1990 are the main drivers of China's new-style tea market and, more broadly, the consumer market as a whole. These groups tend to be defined by busy work and home lives, and they see upscale beverages like tea and coffee not only as a way to quench their thirst, but also as a source of comfort. In this sense, new-style teas are filling a psychological, rather than a physical need.

Many tea brands are aware of this, and they have sought to associate themselves with a healthy and relaxed lifestyle through their marketing campaigns. Another driver of new-style tea consumption is the desire among young urban Chinese to merge consumption and social activity. "The goal of consumption for this generation of consumers is socializing," "You rarely see a person drinking Hey Tea by themselves."



In this sense, the rise of “Milk Tea 3.0” is following in the footsteps of coffee’s second wave, which saw brands like Starbucks turning cafés into hangouts. Many new tea shops are no longer simply holes in the wall where you buy your drink and leave: They have built-in dining areas with bright and sleek interior designs, floor-to-ceiling windows, and other features that make them look appealing on social media. China’s ubiquitous food-delivery apps have also made tea drinks a part of office culture, as group ordering a round of afternoon milk tea has become something of a ritual for sleepy office workers.

(China beverage reports)

Lockdown helps tea drinking in UK

An independent survey of more than 2000 adults across the UK, commissioned by the UKTIA (the UK Tea and Infusions Association) – the authority on tea - has found that younger adults have rediscovered their love of tea during lockdown.

In-between juggling Zoom calls, remote working, online shopping and home schooling, four in ten of 18-34-year olds are more likely to brew a warming mug of tea than before lockdown. And more than nine in ten say their tea drinking habits are here to stay or will even increase in the future.

Overall, 86 per cent of adults are now tea drinkers – a rise of nine percentage points since a major government survey in 2000. This equates to an extra 1 million tea drinkers. Around half (53 per cent) are drinking tea daily, rising to more than 60 per cent in the over 55s.

Commenting on the survey, Dr Sharon Hall from the UKTIA said: “Everyone knows that wonderful ‘ah’ feeling of sitting down with a mug of tea, especially when you’ve had a busy or stressful day.

“This is probably why more than half of those responding to the survey (53 per cent) cited the ‘feel good’ factor as a reason for upping their tea intake. This was followed by hydration and the opportunity to socialize with family and friends, even if these days that means sharing a cuppa during a virtual chat.



“Lockdown has been hard for most of us – working alone at home and separated from loved ones, or dealing with boisterous children. Having a tea break has been one way for us to take a break in the confines of our own homes.

“Interestingly, younger consumers in their twenties and thirties are being more adventurous with their tea choices. Around four in ten tried new teas during lockdown – including herbal infusions for immunity, teas with added vitamins and different flavours of teas.

“In contrast, consumers aged 45 years plus are more likely to stick to family favourites – such as regular black tea – as nine out of ten said they were happy with their usual brew.

“With fewer opportunities to get out to cafes and restaurants, lockdown was definitely the time for us to rediscover our love of tea – and it’s great that most people plan to stick with their new tea habit”.

(UK Tea & Infusion Association)



Bubble Tea - short of Boba

Bubble tea shops across the U.S. are suffering from a severe shortage of tapioca pearls, also known as boba, due to shipping delays that could continue for months or more.

Bubble milk tea fiends across the U.S. are having a hard time getting their fix as supplies dwindle due to lagging cargo imports from Taiwan and Thailand. According to the owners of Boba Co., which posted an announcement about the issue. There is an "industry-wide shortage" with many boba shops selling out, while others will probably run out in "a week or so."

About 99 percent of the boba consumed in the U.S. is imported from Asia — "mostly Taiwan." Although they have their own factory in Hayward, California, to make boba balls, they lack the key ingredient that must be imported from abroad, tapioca starch, which is derived from the cassava root and produced almost exclusively in Thailand.

They said the pandemic has caused congestion and shortages in the boba supply chain, with many shipping containers from Asia piling up at American ports. Last month's blockage of the Taiwan-chartered Ever Given in the Suez Canal, which accounts for about 10 percent of global trade, is anticipated to further exacerbate the problem.

Industry estimats that the shortfall will run for months given that shipments that used to take one month now drag on for four or five. Other boba companies predict an even grimmer outlook, with Kung Fu Tea representative Mai Shi telling USA Today the situation could worsen over the summer.

The popularity of the beverage has skyrocketed across the globe, with a 2020 market research report from Fortune Business Insights estimating the worldwide market for the tea had soared to US\$2 billion by 2019, with sales expected to swell to US\$3.4 billion by 2027.



The lockdowns imposed during the pandemic have been a boon for boba sales. It is reported that the sugary drink was the most popular item delivered during the early stages of the pandemic in several U.S. states.

Boba or bubble tea, a drink that can be made with milk or fruit-flavored green or black tea, originated in Taiwan and has grown in popularity and prominence in the United States throughout the 2000s. Boba suppliers in the San Francisco Bay Area who are running low on tapioca said their shipments of fully formed boba came from Taiwan, while supplies of cassava root, which is used to make tapioca, came from Thailand and islands in the Pacific Ocean.

(Taiwan News)

Syria raised official rate

Syria's currency rose after the Central Bank raised the official rate to attract foreign transfers and capital inflows from Syrian expatriates away from the black market, dealers said.

They said the pound was trading around 2,990 to the dollar in mid-April, its strongest level since late December.

Traders said sentiment had improved after Syria raised its official exchange rate to 2,512 to the dollar from 1,256, bringing it closer to informal market rates.

The improved rate will encourage transfers by Syrian expatriates through licensed banks rather than the black market, where most foreign exchange dealing is done, bankers said.

Bankers said the market was also reacting positively to an apparent reversal of some of the restrictive policies that brought the sudden sacking of central bank governor.

The pound briefly hit a record 4,700 per dollar last month before strict capital controls and a crackdown on exchange dealers, where millions of dollars allegedly used in black market speculation were confiscated, helped to stabilize it.

There were also tighter controls on bank withdrawals and internal transfers and restrictions on movement of cash around the country, to stop dollar hoarding.

Banks and businesses said the measures had choked interbank liquidity and pushed depositors to hoard cash at home.



Syria's economy, crippled by war, is increasingly dollarized as people try to protect themselves against currency depreciation and inflation.

The collapse of the pound has driven up inflation and aggravated hardship as Syrians struggle to buy food, power and other basics. In January 2011, just before the commencement of civil war, the exchange rate was 50 Syrian Pounds to the US dollar.

(Daily Star)

Turkish banks teeter on the brink

Turkey's banks are facing challenging conditions, just at a time when issues involving the Central Bank are likely to make access to capital markets exceptionally difficult.

The removal of central bank governor, followed by a clear retaking of central bank control by the presidency, has plunged the Turkish banking sector into near-crisis conditions as foreign investment flows out of the country.

"Sharp rises in borrowing costs are increasing risk as banks hit a wall of maturing foreign currency debt. Turkish banks need to repay \$89 billion in external debt over the next 12 months," according to a Banker. This is equivalent to 12.5 percent of the country's GDP.

The low value of the Turkish lira makes servicing this debt very expensive. The lira hit a record 10 to the euro in third week of April and was near the previous record of 8.58 to the dollar. Commerzbank says 10 per dollar is possible by year-end.

In the currency crisis of 2018, Turkish banks were left with large external debts and with minimal holdings of foreign currency that they could use to repay them, resulting in a sharp rise in borrowing costs.

"At the height of the crisis, banks were basically shut out of international capital markets".

Now there are concerns that the latest machinations could lead to a significant investor outflow, as foreign investors get jumpy.

According to Reuters, "Turkey may soon be headed toward another currency crisis." Fitch Ratings expects banks' cost of foreign funding to rise given the change in investor sentiment and increased risk premium due to the more risk-averse global environment.



A major worry among investors though is that there are not much in the way of currency reserves left at the central bank. Societe Generale and others have calculated that net foreign exchange reserves are negative to the tune of around \$40 billion – this is why the \$128 billion that disappeared from the central bank's reserves has become such a political hot potato for the government.

“During the pandemic, banks in Turkey began to allow clients to postpone paying loans, while regulatory forbearance relating to loan classification was also introduced, meaning non-performing loans could be classified as 180 days overdue rather than 90 days, and Stage 2 loans as 90 days overdue rather than 30 days,” Fitch said.

Every time the lira depreciates, this increases the debt service burden for foreign currency borrowers. Hard currency then flows out of the country, and banks struggle to maintain the funds they need to cover short-term debts.

Now add the additional concern: That the new central bank governor will be forced by the president to cut interest at the next central bank monetary policy meeting on May 15. The consequences: The lira will plunge to new depths, vast amounts of hard currency will leave the country, banks will be unable to service hard currency debt, and the central bank will have no reserves to lend them.

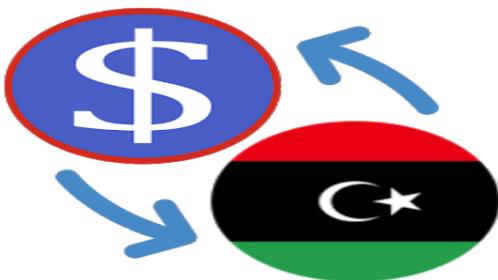
(Reuter)

Liquidity crisis continues in Libya

Libya's currency adjustment in March has helped ease a liquidity crisis across the country but the continued scarcity of cash dollars means the black market still thrives.

Libya has been split since 2014 between warring western and eastern administrations with rival factions seizing control of key economic institutions.

As the eastern banking system was cut off from the Central Bank of Libya (CBL) in Tripoli, different black market exchange rates emerged across front lines, both very different to the official rate, and making dollars unaffordable to most Libyans.



As part of an economic track of a U.N.-led peace process that also includes efforts to choose a new interim government this week, negotiators agreed a new unified exchange rate, bringing the official rate down towards black market rates. Accordingly a new rate of LYD 4.8 per USD was set by CBL which was close to the open market rate of LYD 5.00 per USD

It has allowed Libyans to access dollars through commercial banks by charging debit cards at the new official rate, and many have put dinars into the banking system.

“Deposits have reached about 500 million-600 million dinars within weeks,” said Jumhouria Bank.

“Liquidity is very satisfactory and now there is a cash flow in the market,” he added. Branches that were previously given 500,000 dinars to distribute were now receiving 5 million.

Though the situation is better across Libya, the scale of the improvement has not been even. Some banks and some areas have more access to cash than others. However, the long lines of people waiting outside for money have shrunk but cash dollars are still not readily available from banks in Libya.

One banker states “There is still no clear mechanism for why the Central Bank is unable to provide dollars in cash inside Libya so that citizens are not forced to use the parallel market.”

The Central Bank of Libya (CBL) granted Libyan commercial banks a loan of LD 5 billion in April to help ease the bank clearance process and the country’s bank liquidity crisis. The grant was the second installment. The CBL closely watching the liquidity situation in commercial banks and clearing between bank branches.

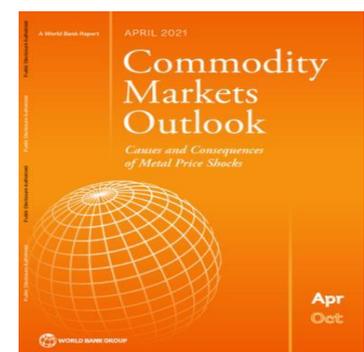
(Reuter)

Commodity Outlook

The World Bank Commodity Outlook -2021 says that prices of most agricultural commodities, especially those highly traded and invoiced in U.S. dollars (including maize, wheat, and most edible oils), may come under downward pressure if the U.S. dollar appreciates. The dollar fell almost 10 percent against a broad index of currencies between April 2020 and January 2021. That lowered commodity prices in domestic currencies (compared to dollar terms), which induced supply contractions and demand increases, depending on the degree of the relevant currency movement for particular commodities. When the U.S. dollar reversed course recently, most agricultural commodity prices followed suit.

The World Bank’s Beverage Price Index remained broadly stable in 2021Q1, but it is nearly 6 percent higher than a year ago. Movements in the index reflect a strengthening in the price of Arabica coffee and, to a lesser extent, gains in Robusta and tea—although the latter has been the most volatile. The index is expected to post small gains in 2021 and 2022. Arabica and Robusta coffee prices were fairly stable during 2021 Q1; following volatility in the second half of 2020 due to pandemic-related supply chain disruptions and the likelihood that Brazil’s crop would be affected by frost. However, global coffee production for the current crop year is likely to grow 6 percent which, combined with an estimated 1.3 percent increase in consumption, would result in a surplus of nearly 9 million bags. Early indications of the 2021-22 crop season, however, point to a sharp reduction in global supplies due to a sharp downward revision to Brazil’s crop - production may decline by as much as 30 percent next season because of adverse weather according to some estimates. Both Arabica and Robusta prices are expected to sustain their early 2021 gains, thus averaging more than 5 percent in 2021 compared to last year, to be followed by smaller increases in 2022.

In contrast to most commodities, tea prices declined 9 percent in 2021 Q1 but they are almost 10 percent higher than a year ago. Tea prices surged during the pandemic as lockdowns disrupted tea plucking in some regions, especially in India. As restrictions on labor movement eased, tea production increased, in turn pushing tea price down. Prices have been also affected by better than-expected supplies from East Africa due to exceptional weather conditions. As supply recovers further, tea prices are expected to decline 7 percent in 2021 before making a small gain in 2022.



Natural rubber prices averaged 2.53/kg during 2021 Q1, nearly 75 percent higher than their April 2020 lows. Demand for natural rubber, which collapsed during the early stages of the pandemic as numerous tire manufacturing facilities closed, has staged a strong recovery. Global consumption grew by 160,000 MT in 2020 Q4 (y/y) or 5 percent, led by recovery in China’s tire manufacturing—two thirds of natural rubber goes into tire manufacturing. On the supply side, there are still problems with labor availability in some countries (e.g., Thailand) due to border restrictions on labor movements. Natural rubber prices are projected to average 30 percent higher in 2021 compared to 2020, before stabilizing in 2022.

(World Bank)

High freight rate, container shortage to continue

The exorbitant freight rates that were aggravated by the shortage of container supply are expected to remain in shippers' finances for another 6-8 months, said Malaysian National Shippers' Council (MNSC).

Based on MNSC's survey in February, the response gathered from shippers indicated that the freight rates have skyrocketed to a historic level. "Covid-19 and its ensuing impacts have emerged as the top risk to global trade flow as they affect both supply and demand of goods. "Shippers, importers and exporters have been hit hard with a myriad of issues caused by disruptions in the supply chain, which has not only severely impacted manufacturing activities but shipping activities as well.

"Shippers continue to face container and vessel capacity shortage issues which have led to high freight rates," MNSC chairman told The Malaysian Reserve.

He added that the surging freight rates are forcing foreign buyers to delay their orders with the anticipation that the shipment costs will decrease in the coming months to avoid losing out on export revenue.

"Shippers are faced with difficult decisions daily on whether to ship and incur high export costs, or not to ship and lose their export markets.



"While shippers are struggling with lengthening port delays, cargo rollovers and soaring freight rates, they have been recently subject to an array of equipment and congestion surcharges including port congestion surcharge, equipment maintenance fee and deficit equipment surcharge imposed by the shipping lines," he said.

The skyrocketed shipping costs were contributed by several factors, including the booming of the Chinese economy post-pandemic, soaring demand following financial stimuli and congestion at main sea ports.

The issues have been creating a ripple effect since the global economies began taking the first steps towards recovery at the end of last year. The shippers are coping with the situation by rationalizing the limited container, vessel space and cargo with their customers, and navigating rescheduling to the earliest possible delivery date to suit the demand.

He added that importers are also utilizing air freight as an alternative to secure incoming material even though it is an expensive option. "Importers and exporters are surviving by coordinating their shipment arrangement according to priority level, and also by planning their orders six months ahead to secure the bookings for whichever container or vessel space that is available.

The price of containers too went to the roof. A brand new container used to cost about US\$2,000 for 20 footers, now it has gone up to US\$3,500. "For all charter ships, the contracts have been locked in one to two years. When the cost is high, generally the operators would have to recover those costs.

MNSC does not foresee the rates to come down anytime soon. It may soften a bit to reflect the softening demand and improvement in logistic efficiency, but it will not fall soon to the level we have seen before (pandemic).

(The Malaysian Reserve)



Coffee drinking rises in ME

“The coffee industry in the Middle East is growing very fast,” says a report, stressing the demand for coffee “in all forms – green coffee, roasted coffee, and coffee beverages.”

It further says that “in the United Arab Emirates, this demand started probably 10 years ago.” Now, it is considered a “mature” coffee market.

According to the ICO, Saudi Arabian coffee imports rose by 42.8% between 2008 and 2018. Turkey saw a 192.8% growth, while in the United Arab Emirates; it was an incredible 249% increase.

“Social changes have played a big role in increasing the number of people visiting cafes,” reports Saudi Arabia Al-Watan newspaper. The foreign scholarship program that has sent nearly 200,000 Saudis to the US and other countries annually also contributed to growth in coffee sales in the Kingdom.

Saudis of the new millennium do not like the traditional coffee without additions. “Saudi youth aged between 15 and 22 represent the major group of customers of various international coffee brands here,” the official told the Arabic daily. “Ads, content and additions are some of the factors that attract this group to coffee shops.

According to one report, coffee sales make an annual growth of 0.5 to 0.85 percent, which is considered moderate for the Middle East, North Africa and Turkey. Saudi Arabian population consumes on average more than 1 kg of tea and coffee annually.

The Kingdom’s vast area has played an important role in raising coffee sales. “Saudi Arabia has one of the highest rates of population growth, which reached 2.54 percent by the middle of 2019 according to figures issued by the General Statistics Authority.



These are startling statistics: during the same period, US and Japanese imports grew by just 19% and 6.8% respectively. And with the exception of the UAE, the re-export of coffee in the Middle East is low – meaning we are seeing striking increases in consumption and interest throughout the region.

Saudi Arabia’s burgeoning coffee consumer market plays a big role in recent growth, saying that “a new era” has begun. “It is a huge country with a population of over 32 million, and a couple of months ago, they took an important step,” report says. It is referring to the relaxing of regulation that previously required businesses to segregate their male and female customers. While many businesses still segregate, others are relaxing the rules. “As an official dry country, this socialization is happening around the coffee shops and coffee houses.”

Yet even before this change in regulation, the importance of the coffee market was not to be underestimated. In February 2019, the Dubai government invested US \$35 million in building a DMCC coffee center. The 7,500m² space features an SCA Training Campus, a coffee quality lab, and cupping labs. It’s anticipated to handle up to 20,000 MT of green beans annually, at a projected value of US \$100 million.

What sets the Middle East apart from other regions is its rich coffee traditions that evolved prior to European coffee cultures and still exist today. Coffee is “almost a language” in Arabic culture.

In fact, qahwa, the Arabic word for coffee, is the root of the words we use today: “coffee” and “café”. And while there is no denying the social role that coffee plays in most countries, the coffee-drinking etiquette of the Middle East is complex and deeply entrenched.

Today, the region has a hybrid coffee culture: one in which traditional Arabic culture holds influence but so do Western-style cafés with their filter coffee. "The young generation really loves specialty coffee, the whole aspect of it: the product, the experience, and also the 'hanging-out' factor in coffee shops," Will coffee drinking will overtake the tea consumption in Saudi Arabia in the near future?

(Saudi Beverage News)

Russia sees risk of disconnection from SWIFT

Russia is already in the process of minimizing any potential damage in the case of being disconnected from international financial instruments, but still regards the risk it may be denied access to the system of interbank payments SWIFT as hypothetical, says a spokeswoman from Russian Foreign Ministry.

"The scenario of Russia's disconnection from SWIFT is still regarded as hypothetical. Nevertheless, joint inter-departmental measures are being taken to minimize the risks and economic damage to the country that restricted access to customary international financial instruments and payment mechanisms might entail. As an example of alternative instruments one can mention the Bank of Russia's System of Transmitting Financial Messages. At the moment various options are being considered of interfacing it with foreign counterparts, such as Europe's SEPA, Iran's SEPAM, and China's CUP and CIPS," etc.

Cooperation is afoot between Russia's payment system MIR and foreign analogues: China's Union Pay, Japan's JCB and international Maestro as well. These cards are accepted both inside and outside Russia. However, she remarked, it is too early to speculate when a comprehensive national set of instruments in the segment of payment transactions might be finalized and promoted to international markets, because, it is a time-and effort-consuming process.



"Alongside this Russia is exploring the opportunities of the latest cyber technologies and the possibility of tapping their potential to enhance the stability and independence of the national financial system and payment means. There is a clear understanding that digital means of payment may eventually provide the basis for an upgraded international financial system and trans border settlements."

Earlier, the European Parliament at its session in Brussels on April 29 passed a resolution on Russia containing calls for sanctions against the gas carrier project Nord Stream 2, nuclear power corporation Rosatom and "Russian oligarchs", as well as for disconnecting Russia from the international payment system SWIFT in case of an "invasion of Ukraine." The resolution was approved by 569 members of the European Parliament of the 682 in attendance, with 67 nays.

(Tass News)



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