

## Review of the Global Cashew Market in 2013 & Forecast for the Year 2014

How the cashew market functions is determined by a number of factors including, but not limited to demand and supply trends, as well as available stocks. This study is concerned with the statistics of the cashew market in 2013, the outlook for 2014 and the years ahead. This summary provides a brief overview and analysis of current cashew market trends and highlights the role of the African Cashew Alliance (ACA) and the African Cashew initiative (ACi) in the development of the African cashew sector.

### The Cashew Market

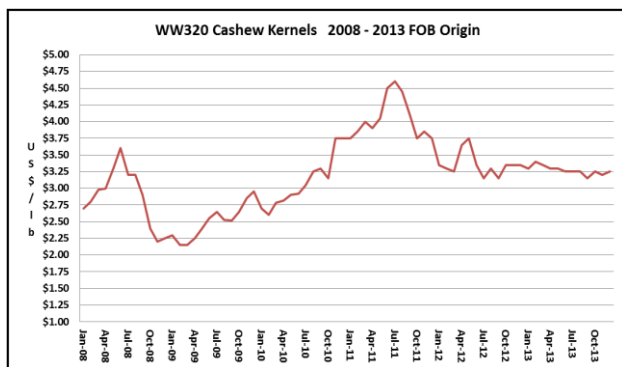


Fig. 1: Price stability continues

The year 2013 was characterized by price stability on kernels and reduced volatility on RCN. The price stability of last year is almost unprecedented in the history of cashew price records going back to the 1980's with the only period that comes close being 2006-2007. Several factors contributed to this stability. There was a good match between supply and demand, changes in buying patterns in recent years with buyers spreading their orders across the year compared to the previous years. The kernel market experienced less speculation whilst the RCN market had less volatility. The stability of prices has rebuilt

confidence among buyers and discouraged speculation in kernels though the RCN market still thrives on speculative activity. The USA was the star performer with imports in 2013 going up by 19% to end of November, the second best year of all time. We may well see an even better demand trend in 2014, if USA buyers decide to promote again on the basis of the price stability and relatively attractive pricing. In Europe, imports were positive. Indian demand also showed continued good growth with some indications of price sensitivity emerging based on Rupee depreciation against the US\$.

*The African Cashew initiative (ACi), since its establishment in 2009, has closely observed global cashew market trends and implemented activities according to market needs with a focus on higher productivity (yields), better quality nuts, the establishment of market information systems and promoted exchange among all actors in the supply chain.*

*Especially ACi activities that are geared towards improving cashew yield and the quality of nuts, through implementation of farmer training, promotion of improved planting material and quality assurance, have long term effects on the industry. As a result, buyers are becoming confident in sourcing RCN and kernels from Africa and are willing to pay for higher quality products.*

*ACi and ACA interventions have also contributed to more transparency throughout the supply chain, which in return also increased product competition. It allowed traders to make informed decisions on where to buy, at what time, for which quality and what price. It also permitted them to plan their business activities better, hence increased price stability and reduced volatility.*



### Multiple factors contributed to price stability in 2013

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| <ul style="list-style-type: none"><li>• Good Supply/demand balance</li><li>• The growth of Vietnam in RCN and kernels</li><li>• Good processing margins especially in India</li><li>• Changes in buyers buying patterns</li><li>• Speculation more on RCN than kernels</li></ul> | <ul style="list-style-type: none"><li>• Better market understanding</li><li>• The rise of the big players</li><li>• The rise of the supply chain manager</li><li>• More direct processor to roaster trade.</li></ul> |
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*The ACA, through its annual conference, offers a platform for all cashew stakeholders along the cashew value chain to exchange on new technologies, market trends and consumer behaviors. In the last five years, more information on the cashew market, trends and prices were made available through the development of a worldwide cashew network than in the last 50 years all together. More access to information has increased transparency along the value chain and built trust among all actors, making long-term business relationships between farmer, processor and trader more and more common. Through access to market information systems, cashew farmers have learned to calculate costs*

*and know when to sell their produce at what price after comparing them on the global market. The adoption rates of harvest and post-harvest handlings have certainly had an influence on the quality of their produce and increase farmers' annual household incomes.*

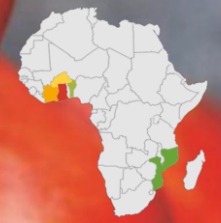
### Market Trends 2013

The year 2013 was characterized by consolidation rather than major new developments:

- Production continued to fall in Brazil and Vietnam, was stable in East Africa and showed slow growth in West Africa.
- Food safety is now at the centre stage as companies with HACCP accreditation for example gain more business and better prices. Consumers and supermarkets are getting more and more conscious about food safety in cashews. In the USA, the Food Safety Modernisation Act is fully implemented.

*The African Cashew Alliance launched the so-called ACA Seal, an industry-accepted mark that represents compliance with internationally recognized quality, food safety, and social/labor standards approved by a former US Food and Drug Administration (FDA) officer and compliant with the US Food Safety Modernization Act. Since 2012, six processors throughout West and East Africa have already been seal approved, with many more currently going through the ACA Quality and Sustainability Seal program. Cashew buyers such as Kraft Foods and Intersnack have already committed to buying ACA Seal cashew*

- There are positive trends as nuts are seen more and more as healthy food. High profile articles in the UK and USA daily newspapers with mass circulation were observed in 2013.
- In processing & technology, 2013 showed new trends in shelling machines: Better shelling machines are emerging in India while higher capacity shelling machines are being produced in Vietnam.



- The introduction of higher import duties in India meant that Vietnamese pieces were left without a market of last resort causing price stagnation. Price of cashew pieces continued below average although a slight upward spike has been observed in the early weeks of 2014.

## Kernel trade

The most notable feature of the kernels trade in 2013 was the continued growth of export from Vietnam. Official statistics suggest an increase in exports of approximately 16% with one third going to the USA and 18% to China. Values however are only up by approximately 10% reflecting lower market prices overall especially for broken kernels. Vietnam is therefore the biggest story of 2013. A largely underfinanced processing sector has yet again grown its market share and probably accounted for 45% of world trade in 2013.

### Kernels: 2013 Price Ranges\* FOB Origin US\$ per lb.

Grade	High	Low	Close
WW240	3.90	3.65	3.75
WW320	3.35	3.10	3.25
WW450	3.20	2.90	3.00
FS	2.35	2.10	2.25
Pieces	1.55	1.40	1.50

The Indian domestic market remains the largest trade channel in the world with demand likely to approach 200,000 tons in 2014 or 2015.

*\*Price differences reflect differences between origins and reliable/unreliable processors.*

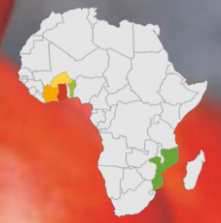
Processing in India exhibited a good year in 2013 with brokens protected by import tariffs in the second half of the year, good demand and a weaker rupee boosting exports.

*Due to decreasing production levels in Brazil and Vietnam and stable production levels in India, Africa is in the center of attention on the global cashew market. According to the latest projections, Côte d'ivoire is becoming the largest producer worldwide until 2018. A high demand on high quality kernels worldwide gives (West) Africa a unique opportunity in producing higher quantities of better quality kernels to meet the rising global demand. If global demand cannot be met, high price volatility and unstable prices will be a negative result.*

## Outlook

There are some indications that an 18 month to 24 month cycle of demand is at play on cashew kernels which would seem to suggest that 2014 might be a year of strong growth in consumption again.

The medium term outlook suggests falling production in the main processing origins meaning that the demand for RCN from Africa will tend toward the upper limits of predictions made in conjunction with ACI some two years ago. It now appears that the required production increase could be as high as 15% per annum unless India and Vietnam turn around their production. We have used a conservative 8% in our projections but this may be the minimum figure growth needed to balance supply and demand. If this could be achieved this would leave African ports needing to handle 2 million MT of RCN in five years (based on current processing volumes). This does not appear to be realistic given the current infrastructure constraints. It would also leave the market highly exposed to weather, climate or political change. Therefore the conclusion must be that the RCN trade will become larger and more volatile on the one hand but on the



other hand the logic for **processing in West Africa in particular is more compelling than ever**. This becomes even more compelling if indications of increasing interest in broken cashews for confectionary and breakfast cereals develop as real outlets.<sup>2</sup>

*Creating a favorable business and investment environment for the private sector is one of the main objectives under the ACi and moreover of the ACA strategy. Also developing lucrative business models in the processing industry in terms of financing models and innovative technologies are high on the agenda for a sustainable cashew sector. Another critical factor remains competitive legal frameworks, such as labor laws and private sector incentive mechanisms. Local markets and consumption of cashew kernels in Africa are not yet developed. These are however major aspect for competitiveness especially with Indian processing industry.*

*A main contributing factor to an African supply chain that adds value to the produce is an increasing number of local processing factories. In this way farmers are more likely to meet international quality standards because raw materials are processed locally and do not lose quality on African ports. Linkages between farmers, processors and kernel buyers can also ensure high quality products to be available throughout the year in a sustainable cashew sector with stable prices.*

*ACi and ACA work in close cooperation with main buyers and trader from the US, Europe and India, providing continuous information on market trends, investment advice and technical assistance for a growing and flourishing cashew processing industry in West Africa.*

The cashew industry still looks like a good business to be in - from farm gate all the way through to the supermarket. The current trends toward a growing RCN trade is likely to mean that the “rich get richer” for now. But this could be turned into a potential value addition for African farmers if large roasters and brands were to realize that the risk of investment in cashew in (West) Africa is more than matched by the potential for high reward for all actors.

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