

Tea prices in 2021: Output shortfall may hold the key

Downside risks will remain after the all-time highs witnessed in 2020

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The year 2020 turned out to be an exceptional year in terms of domestic tea prices providing some respite to the tea industry, which has been plagued by a consistent rise in costs and largely stagnating tea prices since 2014.

Prices witnessed a sharp increase on the back of a 10 per cent decline in domestic production, while consumption remained firm. Restrictions on labour deployment during the initial stages of the lockdown coupled with adverse agro-climatic factors in North India during June and July, led to a 12 per cent dip in output.

Meanwhile, South Indian production remained flat. Average prices at domestic auction centres were up by 31 per cent (₹44/kg). Prices at North Indian auctions were higher by nearly 33 per cent (₹50/kg), while prices at the South centres witnessed an increase of 29 per cent (₹30/kg).

Demand up, exports down

In the calendar year 2020, for the first time in recent history, demand was significantly higher than supply. This was primarily due to the production loss of 145 million kg (mkg), while consumption remained stable with a healthy increase of “at-home” consumption,



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which makes up almost 70 per cent of the total domestic demand.

Exports during CY2020 are, however, estimated to be down by 17 per cent, in volume terms, on a YoY basis. Such drop in exports in a “normal” year would have been alarming; however, an analysis of the underlying reasons is likely to put the concerns largely at bay.

India lost its market share

with some large CTC-importing nations favouring cheaper Kenyan CTC teas. In addition, with an estimated production decline of 30 per cent of Orthodox teas in India, export volumes of such teas also witnessed a decline.

Lower exports notwithstanding, a 10 per cent decline in production and firm domestic demand, has resulted in an estimated shortage of 100 mkg in the domestic market, which was met from

carry-over stocks from the previous year.

Consequently, pipeline stocks are estimated to be extremely low, a sharp contrast from the situation at the beginning of CY2020.

Tightness in stocks is a key factor that is expected to support prices. Demand for teas, both domestic and international, is expected to receive a fillip in the aftermath of the Covid-19 pandemic, given the established health benefits of the beverage.

Price outlook

A healthy increase in global consumption provides an opportunity for India to increase export volumes. Any change in the geo-political scenario would provide a further impetus to demand from Iran – one of the key export destinations of

premium Indian Orthodox teas. Given the seasonal nature of tea production in India, healthy demand trends and the extremely low carry forward stock levels, shortages are expected to remain at least till around August/September, thus lending support to prices for a major part of 2021.

Any change in production pattern from historical trends may, however, significantly alter market sentiments, leading to large price movements. While predicting the average price levels of tea for CY2021 would be hazardous a guess at this point of time, given the number of variables that are likely to play out, the prices are likely to witness a negative bias, particularly for CTC teas.

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