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Southern Hemisphere Cherries, Growing Exports and Challenges

Southern Hemisphere Industry Put to the Test in the First Regular Season After Covid-19

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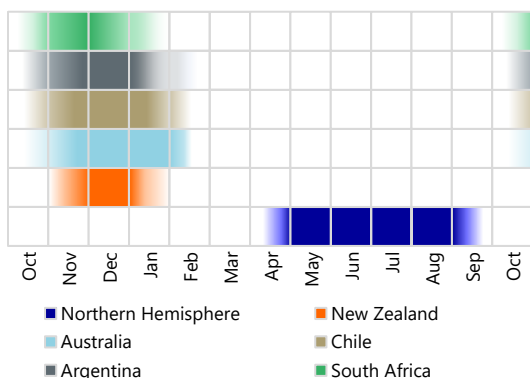
Summary

A new Southern Hemisphere sweet cherry season has started, with record volumes expected, which will reveal how the return to normal in each producing country is unfolding, and how the main destination markets will behave in the current global situation. According to our estimates, exports from Chile will continue to increase. However, all cherry producers in the Southern Hemisphere will face similar challenges in the form of increasing competition, declining prices, and narrowing margins due to elevated production costs. Chile, Argentina, and Australia are also moving in the same direction in terms of improving the efficiency in their processes, focusing on high-quality production, and diversifying their destination markets. Finally, these countries will continue to try to bring forward production in order to avoid the peak of supply in the Chinese market.

Southern Hemisphere Supply Growth Will Continue in the Coming Seasons

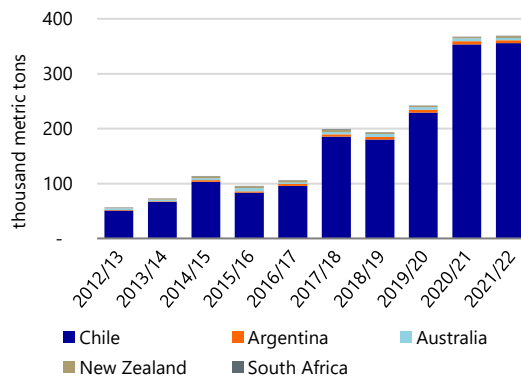
Global sweet cherry supply is characterized by two important sales periods in terms of the location of production. In the case of the Northern Hemisphere, it spans from late April to mid-September. On the other hand, Southern Hemisphere supply runs from mid-October to mid-February with exports from South Africa, Argentina, Chile, Australia, and New Zealand. This leaves two cherry-free gaps in the calendar: one in March and the other in late September and early October (see Figure 1). Unlike other fruit species that moved toward a year-round supply (blueberries, avocados), in the case of sweet cherries we are seeing efforts to move into the first half of October.

Figure 1: Global monthly sweet cherry availability, 2022



Source: Rabobank 2022

Figure 2: Southern Hemisphere sweet cherry exports, 2012/13-2021/22



Source: ODEPA, Trade Map, Stats NZ, SARS, Rabobank 2022

Sweet cherries are a perfect fit for Chinese consumer demand in the run-up to the Chinese New Year celebrations in the Northern Hemisphere winter. The combination of its red color, round shape, sweetness, low availability, and freshness, elevated this fruit to the luxury gift item category. This led to selling prices well above all other fresh fruits in the Chinese market and quickly promoted new plantations in Chile in the past decade. Chilean plantations represented 96% of Southern Hemisphere supply in the past season (see Figure 2).

According to industry sources, it is hard to replicate the success achieved in China in other markets such as the US or Europe, as consumers in these markets prefer to eat sweet cherries during the summer season. Sweet cherries offer major opportunities to increase consumption based on the nutritional value of this fruit. Also, there are marketing opportunities for the holiday season in the Northern Hemisphere’s winter. To this end, the cherry industry in the Southern Hemisphere is moving to new production zones and introducing new proprietary varieties, which are being tested to bring forward production and to achieve a higher-quality product. But the results have yet to be evaluated in the market.

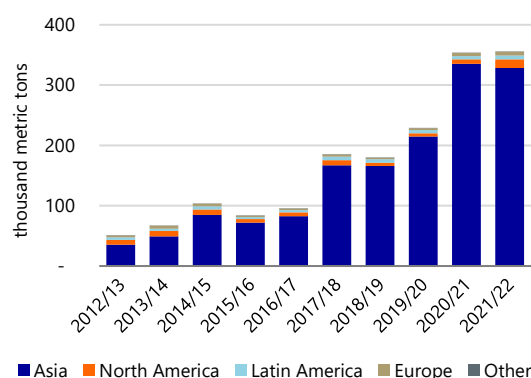
Chile: Challenges Remain in the First Normal Post-pandemic Season

Sweet cherries are Chile’s leading fresh fruit by value, and third by volume, reaching USD 2.1bn FOB and 355,000 metric tons in the past 2021/22 season. Due to the commercial success in the Chinese market in the last decade, exports of Chilean sweet cherries have grown sevenfold in the same period, with 92% going to Asia (see Figure 3).

However, for the last three years, Covid-related issues upended the Chilean sweet cherry promotional campaign during the peak sales season in China. In 2019/20, due to the onset of the pandemic, the main wholesale markets closed just before the Chinese New Year. In 2020/21, unconfirmed news about the detection of Covid-19 traces in a box of imported cherries stopped sales ten days before the celebrations. And in 2021/22, delays in all parts of the supply chain affected the quality of Chilean cherries sold in China before and especially after the Chinese New Year.

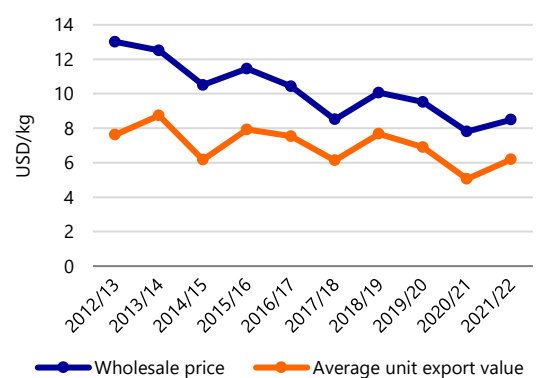
All these factors affected the successful development of sales in the peak season, causing a decrease in average prices in the last three seasons (see Figure 4).

Figure 3: Chilean sweet cherry exports by destination market, 2012/13–2021/22



Source: ODEPA, Rabobank 2022

Figure 4: Average Chilean sweet cherry wholesale prices and unit export value in China, 2012/13–2021/22



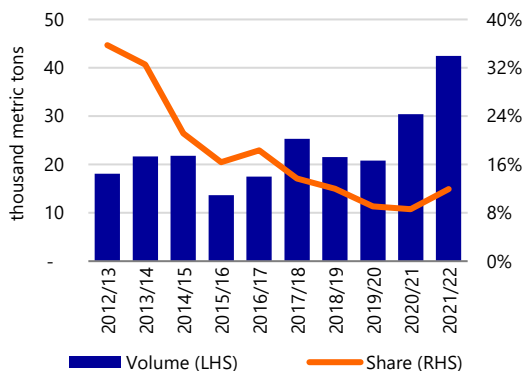
Note: Wholesale price for ocean freight cherries
Source: ODEPA, Rabobank 2022

The 2022/23 season will be a challenging one for Chile in terms of production and market diversification. At the processing level, the lack of sorting lines will be a key factor in the successful development of the current and the next seasons, according to [industry information](#) (in Spanish). Thus, there are opportunities to invest in new sorting lines and to improve the efficiency of the current process.

Market diversification will be another key element for the coming seasons. This is a hard task, due to the risk of oversupplying other destination markets that have lower demand. In the past two seasons it has been successful, as the share of the Chilean sweet cherry exports to destinations other than China has increased for the first time in six seasons (see Figure 5).

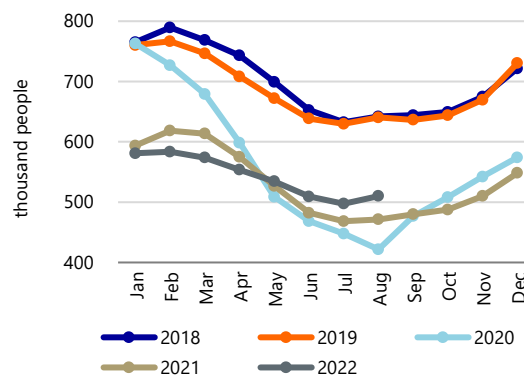
In terms of labor, the first signs of recovery are visible. Employment in Chile’s agricultural, forestry, and fishing sectors over the last four months was the highest since 2020 (see Figure 6). The lifting of travel restrictions (as of May 1, 2022), will also help the sector, as it will enable migrant workers to return to jobs.

Figure 5: Chilean sweet cherry exports excluding China and Hong Kong, 2012/13-2021/22



Source: ODEPA, Rabobank 2022

Figure 6: Monthly employment in agriculture, forestry and fishing in Chile, 2018-2022



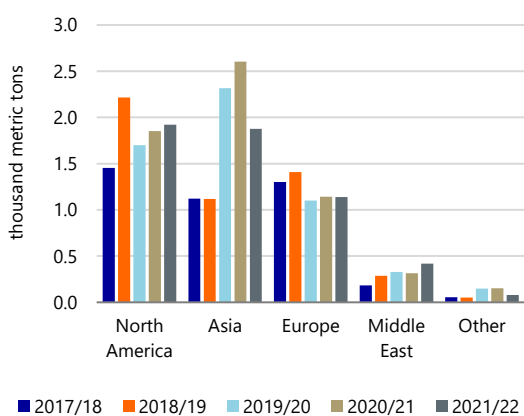
Source: Central Bank of Chile, Rabobank 2022

Steady Growth in Argentina, Despite Internal Constraints

Argentina is the second most important country for cherry exports in the Southern Hemisphere, with 5,433 metric tons in the 2021/22 season, according to industry data. Its production zones span from Mendoza Province, which has the earliest season, to Patagonia, which provides almost 90% of the exports.

Unlike Chile, which exports 9 out of 10 cherries to China, Argentina’s exports are more evenly distributed among North America (35%), Asia (35%), Europe (21%), and the Middle East (8%). In the past season, North America was the main destination market, pushing Asia into the second place (see Figure 7). Good opportunities for early high-quality cherries have also been explored in the UK and the Middle East.

Figure 7: Argentine sweet cherry exports by market, 2017/18-2021/22



Source: CAPCI, Rabobank 2022

The growth of Argentine sweet cherry exports has been driven by a more efficient and consolidated industry rather than by a major increment in the planted area. Therefore, a bumper crop is expected for the next season, even if limited to 7,000 metric tons.

Although there are good opportunities to replace functional but less profitable orchards (apples and pears), one of the key factors limiting the growth of investments in this sector are domestic constraints in terms of high and increasing overhead costs, limited labor availability, high taxes, and an unstable exchange rate. Thus, limited growth is expected in the medium term.

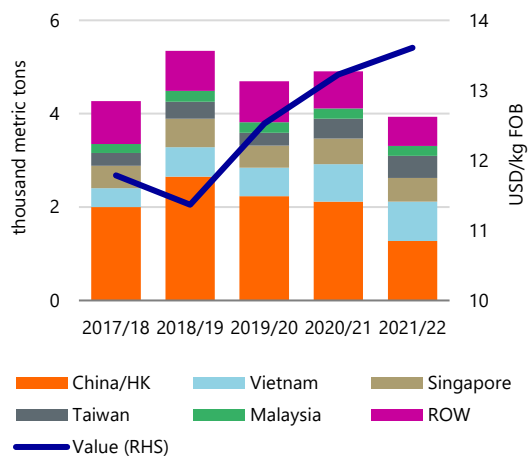
Australia's High-quality Cherries Affected by La Niña

The Australian cherry sector has been in a growth phase for the past four years with over 450,000 additional cherry trees reaching bearing age since 2018. Despite this, production volumes continue to be affected by three consecutive La Niña weather events. This is expected to dampen the production outlook for the upcoming harvest, impacting returns for many growers.

The impact of La Niña was evident last season, with total Australian export volumes decreasing 20% YOY in 2021/22. The major producing states of New South Wales and Victoria were particularly affected by cherry splitting due to above-average rainfall in November, causing export volumes to fall 51% and 32% YOY, respectively. Industry sources estimate total Australian cherry production for 2021/22 to be 17,000 metric tons, down 15% from the previous year.

Together with weather events in Australia, logistical challenges have decreased exports to key markets, particularly to China, where exports fell 68% YOY (see Figure 8). Average export prices remained stable over the past two seasons, up only 3% YOY.

Figure 8: Australian sweet cherry exports and unit export value, 2017/18-2021/22



Source: Trade Map, Rabobank 2022

With a third consecutive La Niña underway in Australia this spring, increased likelihood of a wet harvest could cause cherries to split and consequently lower volumes for exports out of New South Wales, Victoria, and Tasmania, which on average make up ~81% of Australian production.

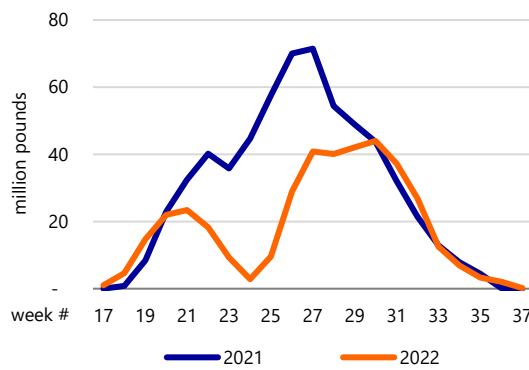
While exports account for ~25% of sales volume, they represent almost 40% of sales value, reflecting the higher unit value obtainable in Australia's cherry export markets. As such, lower volumes of high-quality cherries suitable for exports, along with outbound airfreight rates remaining elevated for Australia, will challenge margins in the sector this coming season.

Longer-term demand for high-quality cherries as a valued fruit in Asia and Australia, together with healthy lifestyle trends, will support growth opportunities in the Australian cherry industry. Australian cherries remain competitive in the export market, although growers still face production risks, elevated input costs, and labor challenges.

Lower US Production and Higher US Imports

According to USDA figures, shipments of US fresh cherries to the domestic market in 2022 were down 36% YOY. The primary reason for the decline in production was cold spring weather in the Pacific Northwest (PNW) that impacted pollination and the early stages of fruit development. As a result, the PNW season started later than usual, which created a significant gap in US grown cherries, particularly during weeks 22-26 2022 (see Figure 9).

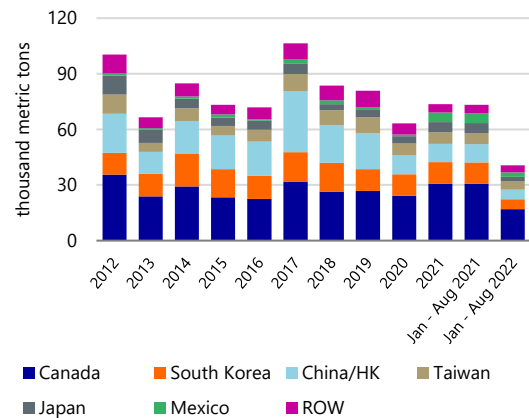
Figure 9: Weekly shipments of US cherries to the US domestic market, 2021-2022



Source: USDA, Rabobank 2022

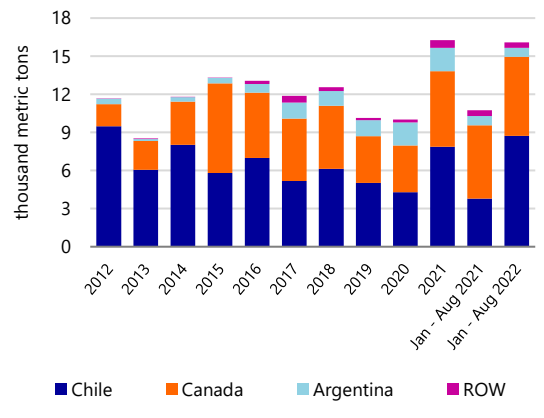
Unsurprisingly, the lower US production impacted exports. In May, during the California season, exports were within the range of recent years. June and July, however, saw considerable declines. Thus, through August 2022, US exports were down 45% YOY, with significant declines in all major destination markets (see Figure 10). On the other hand, US imports of fresh cherries increased 50% YOY through August. US imports from Chile showed an uptick of 131% YOY, with record volumes in January and February 2022. Also, US imports from Canada increased 8% YOY, reaching the highest volume since 2015 (see Figure 11). With November and December still ahead, and expected increasing volumes from Chile, US 2022 imports are set to reach the highest volume in more than a decade.

Figure 10: US fresh sweet cherry exports, 2012-2022



Source: USDA, Rabobank 2022

Figure 11: US fresh sweet cherry imports, 2012-2022



Source: USDA, Rabobank 2022

The availability of fresh cherries in the US has increased at a CAGR of about 3% over the past half decade to roughly 1.3 pounds per person per year (589 grams), as per USDA calculations. According to industry sources, about 36% of US households have purchased cherries within the past 12 months. The likelihood of purchase increases as the primary household buyer is older and as a household's annual income increases. For example, the estimated likelihood of purchase is 29% for households with an annual income between USD 25,000 and USD 50,000, while it is 43% for households with an annual income over USD 100,000. In terms of ethnicity, the likelihood of purchase is higher for Asian and Hispanic households, at 45% and 41%, respectively. The same source also reports that the probability of purchase tends to be higher in the western and northeastern US.

The Chinese New Year Will Test the Return to Normal

The Three Stages of the Southern Hemisphere Cherry Market in China

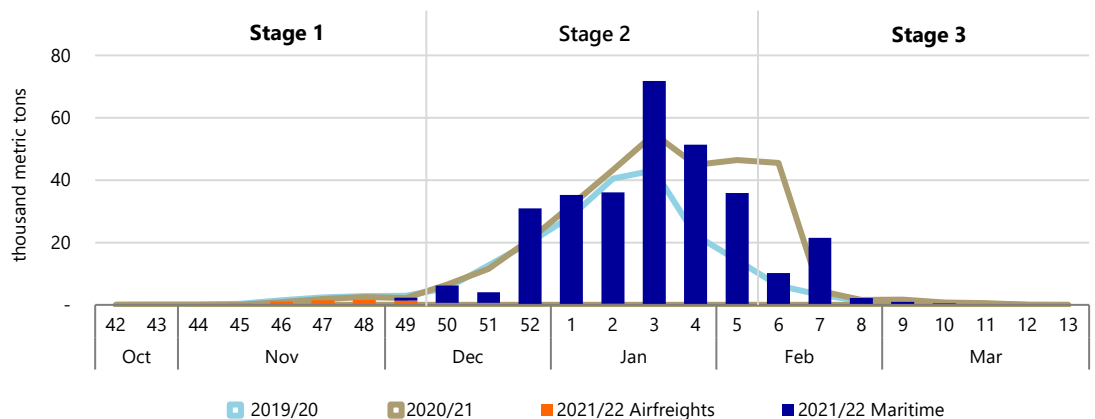
The marketing season for Southern Hemisphere cherries in China spans from mid-October to mid-March, going through three distinct stages (see Figure 12). The first stage starts with the first airfreight arrivals and ends with the first maritime arrivals. Since all supply arrives by air at this stage, availability is low, which, combined with high demand, leads to extremely high prices (above USD 40/kg) in the first two weeks at the wholesale markets. Prices then drop to – a still high level of – USD 20/kg on average.

The second stage is the period between the first maritime arrival and the Chinese New Year. As the date of both events is not the same every year, the market window can be shorter or longer. Still, this is the period when most Chilean sweet cherries are sold in China (90% on average in a normal season) and when wholesale prices increase as the date of the Chinese New Year approaches. In a normal season, the average wholesale price of Chilean sweet cherries at this stage is around USD 10/kg, with fluctuations depending on the quality and the volume supplied each season.

In 2023, Chinese New Year falls on January 22, the earliest date since Chile began exporting large quantities of sweet cherries to China. Meanwhile, the date of the first maritime exports is forecast to be in line with the previous two seasons, as the timing of harvests shows no signs of delays or early starts. Thus, we will face the shortest sales period for the maritime supply to date – below fifty days – for the largest crop ever (see Figure 13).

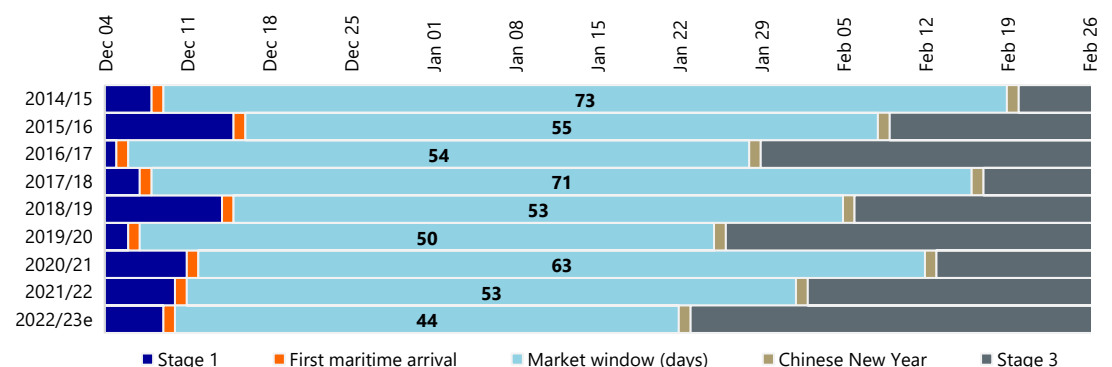
The last stage in the cherry marketing season in China starts after the celebrations of the Chinese New Year. During the festivities, which usually extend for one week around the Chinese New Year's eve, market activity drops significantly. Sweet cherries have a short shelf life (around 45 days under cold storage, depending on the variety). Therefore, stage three starts with pressure on sales in order to clear stocks of fruit that could not be sold during stage two. In the last three seasons, a depressed market has been the normal situation for the third stage, when fresh fruit from the southern regions of Chile that have a later season arrives. These sweet cherries have to compete with fruit of lesser value and quality stocked during stage two.

Figure 12: Weekly arrivals of Chilean sweet cherries in China/Hong Kong, 2019/20-2021/22



Source: Chile Customs, Rabobank 2022

Figure 13: Market window for maritime arrivals of Chilean sweet cherries before the Chinese New Year, 2014/15-2022/23e*



*Note: The market window is the period in days between the first maritime arrival of Chilean sweet cherries and the Chinese New Year. Sales continue after the celebration of Chinese New Year, but usually at a lower price. For 2022/23 the first maritime arrival is estimated based on the two previous seasons.

Source: Rabobank 2022

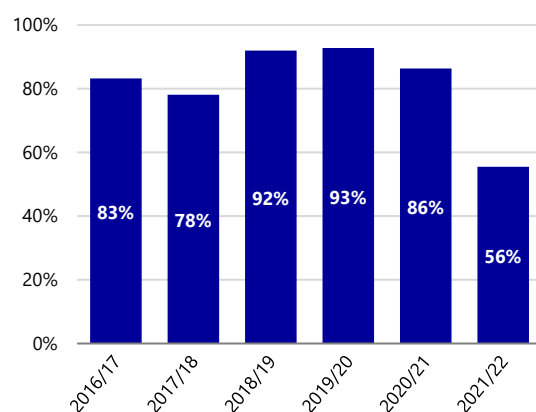
With greater competition in stages two and three, we will also see an increase in volume in stage one in the coming seasons. The Chilean sweet cherry industry is already moving in that direction with new plantations in the central regions. The industry is also testing different proprietary cultivars that produce earlier harvests than regular varieties. According to some insiders, up to 9m boxes (45,000 metric tons) will be added in 2026/27, which could allow the second stage to start two or three weeks earlier.

A Promising Future in Terms of Logistics

As stated in our [previous report](#), logistics (both internal and external) was one of the key issues affecting the 2021/22 Chilean sweet cherry season. Delays in every step of the export process resulted in lower quality and lower selling prices.

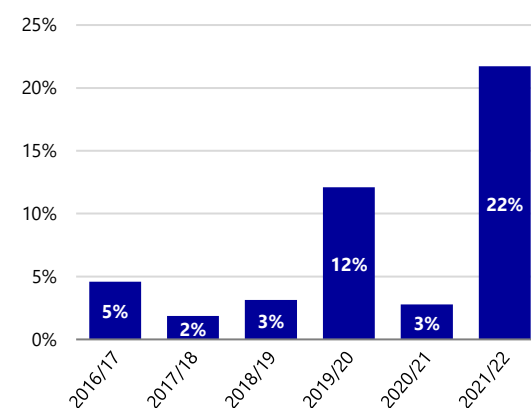
Since the 2016/17 season, the Chilean Cherry Committee and the main shipping companies implemented so-called the 'Cherry Express' service, which allowed an average reduction of 25% in shipping time compared to regular services. However, during the 2021/22 season, the reliability of the service dropped significantly, leading to increased transit times (see [Figure 14](#)). In addition, it resulted in a greater volume not arriving until after Chinese New Year (see [Figure 15](#)).

Figure 14: Share of maritime arrivals of Chilean sweet cherries with 24 or fewer transport days, 2016/17-2021/22



Source: Rabobank 2022

Figure 15: Estimated share of maritime arrivals of Chilean sweet cherries arriving after the Chinese New Year, 2016/17-2021/22



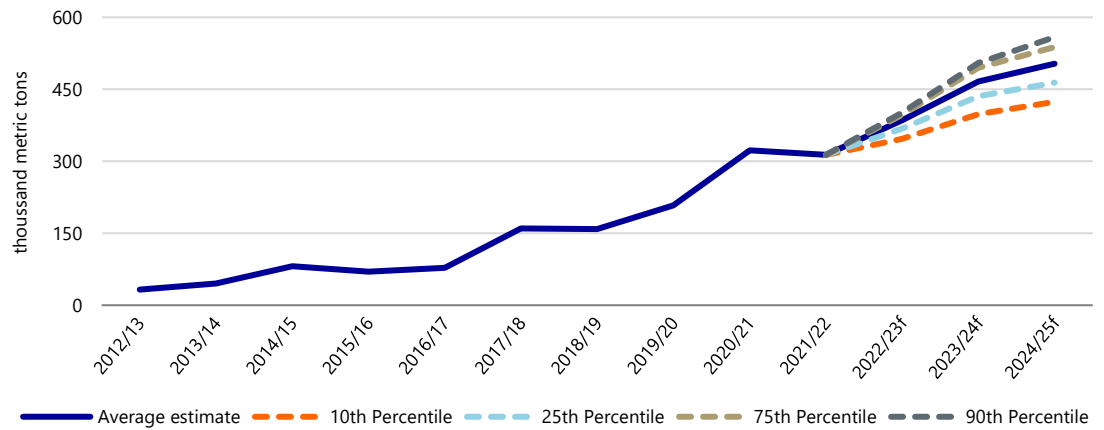
Source: Rabobank 2022

Volume and Price Estimates for the 2022/23 Chilean Sweet Cherry Season in China

Based on planted area and historical export trends, we estimate that Chilean exports of fresh sweet cherries to China will continue to set records in the coming seasons. In particular, for the 2022/23 season, our average estimate sits at 385,000 metric tons, or a 23% YOY increase, with an estimated 50% probability of this volume being between 368,000 and 397,000 metric tons.

For 2023/24, we estimate shipments to be 466,000 metric tons, with a 90% chance that shipments will be at least 398,000 metric tons (10th percentile), and a 10% probability that these will exceed 505,000 metric tons (90th percentile). For 2024/25, we estimate that shipments could reach 500,000 metric tons or 100m boxes (5kg equivalent) (see [Figure 16](#)). Note that our estimates follow a non-symmetric probability distribution to reflect that potential downside disruptions (weather or logistics-related) often outweigh the upside growth potential during any given season.

Figure 16: Chilean fresh sweet cherry export volume to China/Hong Kong, 2012/13-2024/25f

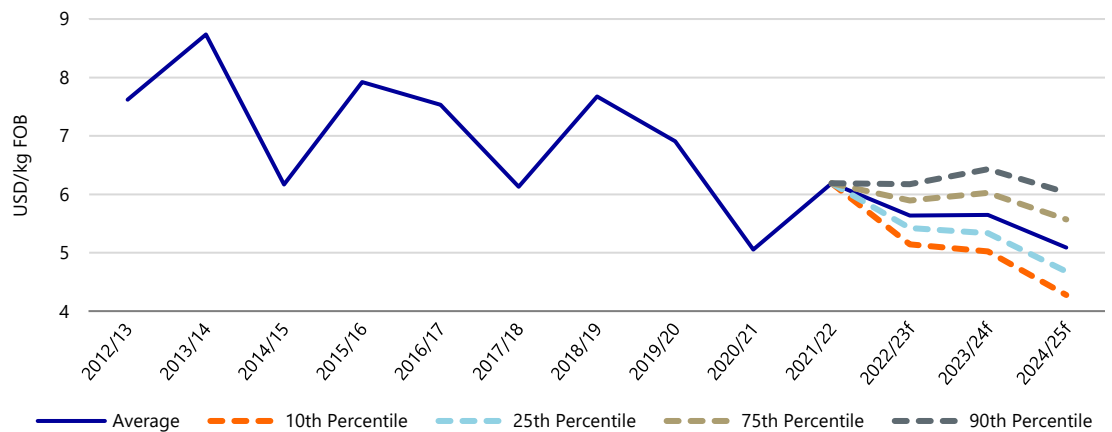


Source: ODEPA, Rabobank 2022

Given the increase in export volume and other relevant factors, we have estimated average prices for exports of fresh sweet cherries from Chile to China for the next three seasons. For the 2022/23 marketing season our average price estimate is USD 6.54/kg, a 9% decline with respect to the average price obtained in the previous season. Going forward, we estimate a 50% chance that average FOB prices will be between USD 4.68/kg and USD 5.57/kg in 2024/25 (see Figure 17).

As export volumes continue to increase, average prices are likely to gradually decline, but are expected to remain at profitable levels for growers in Chile. The highest percentiles of our estimates take into account the likelihood of favorable events, such as continued improvement in fruit quality, a higher proportion of cherries arriving when demand is high (before the Chinese New Year), and positive development of consumer demand in China.

Figure 17: Average FOB prices for Chilean fresh sweet cherry exports to China/Hong Kong, 2012/13-2024/25f



Note: The y-axis does not start at zero to better reflect the price differences.

Source: ODEPA, Rabobank 2022

Some Closing Words on the Coming Seasons

Despite the current economic scenario in China, with the renminbi reaching its lowest level in 14 years, the 20th Party Congress will give clues as to what to expect for 2022/23 and the following seasons in terms of domestic economy and demand. November 11, China's Singles' Day, or Double 11 as the commercial holiday is also known, will reveal what the current status of consumer demand and spending is.

In addition, the pandemic has triggered changes in the way fresh fruit is sold in China, with the share of informal channels falling from 36% in 2019 to 9% in 2021, and supermarkets, fruit shops and e-commerce gaining ground in the same period, according to [iQonsulting](#). However, this sector is constantly evolving. Some relatively new channels, such as community group buying,¹ which had showed some signs of slowing down, recovered thanks to the lockdowns in major Chinese cities. In general, the digitalization of the main fruit shop channels in China has helped to improve and implement logistics, which is essential in the case of cherries.

Finally, sweet cherry consumption is still low in other markets, with plenty of room to grow. There are opportunities to test market demand in the US, the UK, and Europe to replicate part of the high volumes marketed in the Northern Hemisphere summer season.

¹ Community group buying is a business model in which households can integrate small orders into larger orders, allowing members to buy daily essentials in bulk at cheaper prices.

Imprint

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