CROP REPORT 2018/19

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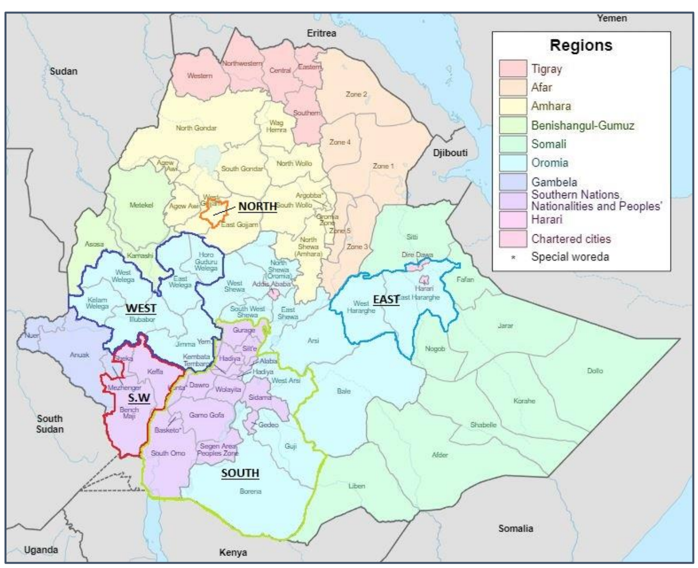
A. Executive Summary:

- The 2017-18 crop is revised slightly higher to 388,645MT (6,477k bags), still 3% lower than the 2016-17 crop.
- The 2018-19 crop is estimated at 437,267MT (7,288k bags), 13% higher than 2017-18crop. *Volume of washed and sundried production is estimated at 67,994 MT (16%) and 369,273MT (84%) respectively.*
- Harvesting is estimated to peak between the 22nd of November and the 22nd of December across the major coffee producing regions (South and West); and about 99% of country production will be harvested by the middle of Jan 2019. This represents a move of 21days earlier in harvesting pace vs. 2017-18.
- The majority of washing stations in the southern region (Sidamo / Yirgacheffe qualities) opened at the close of October and could have opened even earlier if unrest had not held delayed the governments decision to grant operating permission.
- Challenging drying conditions across the first four weeks of operation (SH Oct/FH Nov) mean that monitoring of drying conditions remains vital for the rest of the season and early qualities of washed may be deteriorated.
- Rumoured big shorts already taken on in the Export market for Unwashed Gr 4's, which was undersupplied in 2017/18 could see early season pricing at ECX high and a squeeze on supply. Based on patterns of this year, depending on the size of short this could spill into the Djimma complex, which is often blended into Sidamo when supply is inadequate.
- The change in regulation enacted in 2016/17 and ratified in October of this year mean that many exporters have taken up the opportunity to engage with certification at washing station level most obviously in the West.



B. Introduction to the Crop Outlook in 2018/19:

The Ethiopian coffee crop in 2018/19 is predominantly on-cycle, with weather driven production recovery in Harar further driving the estimate of available volumes towards record levels (7.288M Bags).

The on-cycle had greater impact in the south where there has been a strong recovery after the frost damage seen in some parts in 2017. Under survey Yirgacheffe in fact saw the highest productivity per tree of any region, but is yet to recover its tree density per hectare after heavy stumping last year. The on-cycle biennial effect was muted in Wellega by slightly poorer than expected weather conditions. For the Djimma complex Illulabor is on-cycle while Jimma and the Forest regions are off-cycle.

In Harrar although it should be an off-cycle year, favorable rains during the growing season for the first time in three years, have seen a major recovery in production.

Crop harvesting is ongoing at its standard pace (start was three weeks earlier versus 2017/18 when it was delayed by late rains), however rains in the first part of the collection period may have affected some drying and led to a number of washing stations operating on a one day on/one day off basis for buying to allow themselves to manage the available drying capacity. Weather however now appears to have settled in advance of the key harvest window form the 22nd of November to 22nd of December[1].

Methodology of the Survey:

A pre-harvest survey of the 2018-19 crop was conducted in September/October across the entire country to estimate production (2018/19), stock (2017/18), harvesting pace and the likely selling pace. Survey of the Western parts of Wellega was slightly interrupted due to ethnic violence and unsafe conditions. In total 496 farm surveys were conducted.

Table.1) Samples distribution

Regions	Samples Visited Oct,2018
West	205
South-west	63
South	196
East	32
Ethiopia	**496**

[1] As of latest weather reports on the 20th of November.

C. Review of 2017-18 crop

The 2017-18 crop is revised slightly upwards to 388,645MT (6,477k bags), though remains 3% lower than the 2016-17 crop. The revision is based on reconciliation of the balance of stock along the coffee supply chain against volume of coffee traded at ECX and the volume of coffee exported during the season. The unknown remains domestic consumption for which no-one has a clearly accurate number and shows 5% variation up/down depending on respondent. In production terms the region where we believe our last crop survey slightly under-estimated the production was the west and therefore that is where you will see a noticeable increase.

Table.2) Review of 2017-18crop

Region	Area (Ha)		% Var	Yield (MT/Ha)		% Var	Production (MT)		% Var
	2016-17	2017-18		2016-17	2017-18		2016-17	2017-18	
West	343,447	348,611	2%	0.55	0.52	-5%	188,591	182,613	-3%
S-West	102,170	105,975	4%	0.48	0.81	69%	48,741	85,462	75%
South	194,109	198,643	2%	0.77	0.51	-34%	149,971	101,547	-32%
East	65,024	65,089	0%	0.22	0.28	26%	14,548	18,345	26%
North	947.73	977.73	3%	0.70	0.69	0%	659	679	3%
Ethiopia	705,697	719,296	2%	0.57	0.54	-5%	402,510	388,645	-3%
K Bags							6,709	6,477	

Internal coffee market situation: Regulatory Reform and Consumption

The main story affecting the 2017/18 coffee market was and continues to be the political instability which came to a head in February/March of this year when the former Prime Minister was replaced by the current Oromo incumbent Dr Abiy**.** Following this; political speech and protest has become more permissible but tensions have flared between regional groups as old grudges have been settled and while the overall tone of the country is far more optimistic it remains tense.

Reforms introduced in 2016/17 had a mixed impact on the 2017/18 crop season as they were only finally ratified in October 2018 however they are expected to have a far stronger impact in 2018/19 with a particular growth in the availability of certified coffees, particularly in the Western and South-Western Regions where plantations and Washing Station Operators have vigorously pursued the out-grower model as a means of adding value and market access. .

Across the 2018 sales season ECX has continued to trade at very high losses versus to registered export prices. Briefly when the government announced a crackdown on the black-market trade in forex the incentive to export reduced but as of today, black market levels have returned to a norm of a 30% premium over the official exchange rate. A benchmark importers use in the break/even when exporting coffee. Unwashed coffees this year reached loss levels of 30%+ regularly as the shortage of unwashed in the ECX bit hard, however washed coffees have traded close to break even. What changed the market in this season was a willingness on the part of some exporters with high-margin import businesses to negotiate contracts with far ahead delivery terms at extremely competitive difs, to allow themselves visibility of Forex supply. This in turn kept NBE registered export prices depressed and probably explains the widening percentage loss, between ECX purchase price and NBE export price.

When looking at the different key qualities, Sidamo 4 was highly unstable in its price point reflecting early shorts at low levels and then later contracts coming in at higher levels when short supply became most apparent. As a blending component (illegally) in Sidamo 4 when in short supply, the price of Djimma components were also equally unstable. By contrast the registered export price of Lekempti remained very constant showing both the nature of its demand (more driven by outright levels from the middle East) and a lack of use as a substitute for other short qualities.

On the washed side Sidamo and Limu had slowly declining differentials across the year. Initially high pricing based off an expected small crop, was compensated for by early volumes covered by the carry-in and a higher proportion of coffee going into washing in the South. Limu followed a similar price pattern. At the close of year, as demand has evaporated at ECX and in the Export market, ECX prices have collapsed to a level virtually on a parity with unwashed qualities (bear in mind that washed however is sold in parchment and unwashed in clean green). This could be driven by two factors. One is that the government, with one eye on a big crop, has encouraged strongly Akrabis with remaining stock to enter it into ECX. The second is that in October they semi-formally allowed exporters with washed coffee for which they could not find an export market to sell it into the local market, after making a formal written application. It is suggested up to twenty Exporters, many of them among the biggest in Ethiopia by volume, did this. Naturally having made such an application it is unlikely an exporter would want to appear to have been deliberately selling into the local market by then returning to purchase in volume at ECX.

The positive outcome of the above is that the washed carry-in, where quality matters most, should be smaller than in the past and that in the new crop, certs should be more available. We now only need to see the political mood remain calm.

Exports performance 2017/18 (Numbers taken from the Coffee and Tea Authority + Est. post May):

Exports of 2017-18 trading season are est. 2% higher than exports of 2016-17 trading season at 232,010MT. The total coffee export volume of 2017-18 trading season was projected to be 233,557MT (Ethiopian Govt.) meaning the country under-performed. However anecdotal reports of low export volumes in August, September and October could mean this was to a greater extent than reported here due to a very low New York which disincentivized export. **Numbers from June 2018 onwards are estimates as government official data is not currently available.*

Graph 1) Comparison of exports figures

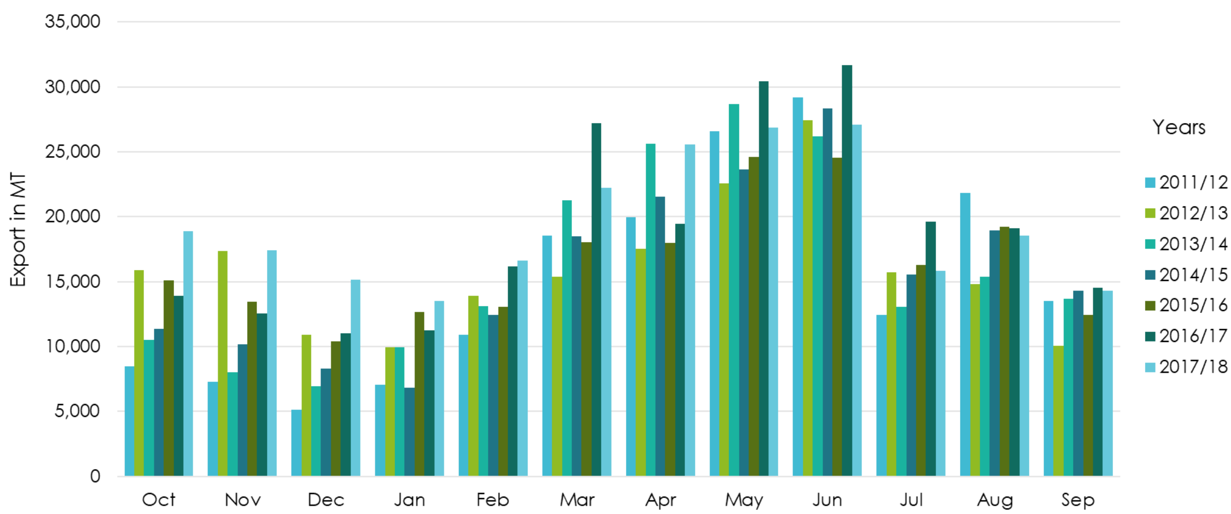


Table 3) Reconciliation of Stocks:

CROP 2017-18 BALANCE ANALYSIS	K bags
Carry in (Oct. 17)	1,644
Original Est. Production 17/18	6,357
Total Supply	8,121
Dom Use (Oct 17-Sept18)	2,683
Exports (Oct 17-Sept18)	3,867
Total Physical Disappearance	6,550
Implied Total stocks	**1,451**
Estimated actual stocks (Oct. 18)	**1,572**
Stocks with Exporters (Oct 18)	191
Stocks in ECX warehouses (Oct 18)	40
Stock with Upcountry traders (Oct 18)	149
Stocks in the Domestic market (Oct 18)	696
Stock with Farmers (Oct 18)	496
Surplus/Deficit vs. Original Est.	-120
Implied revised production Est.	6,477
Carry Out (Carry In 2018/19)	**1,572**

Based on the fact that some exporters were allowed to sell washed stock into the local market, the proportion of coffee held in that market may form a larger percentage than given. It is difficult to gauge as no official information is being shared as yet on volumes. Overall the larger part of the carry-in for the 18/19 season will be from the West, particularly in the regions producing Lekempti where a mix of weather and then political unrest as well as better group organization allowing controlled supply to market have meant larger than normal volumes remaining in the hands of farmers.

D. 2018-19 crop estimate

1. Production estimate

Overall the 2018/19 crop we estimate is 13% higher than that seen in 2017/18 at 7.288M Bags. The 2018/19 crop season is most noticeably increased in the south (Yirgacheffe, Sidamo and Borena).

In Wellega/Lekempte, Ilubabor/Djimma B (West), we have an on-crop year however minimized by poorer growing conditions, particularly in Wellega.

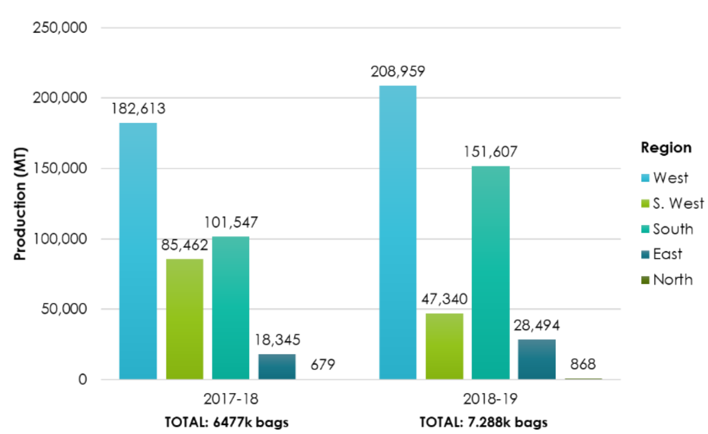
The south-west which saw a major on-year in 2017/18 is now in an off-crop year although this will not be reflected in plantation volumes where better management allows a reduced impact of the biennial cycle.

Lastly Harar after a series of poor crop years as a result of poor rainfall conditions in 2018 saw good rainfall distribution in key growing periods and therefore despite it being an off cycle year has a much improved crop outlook.

Table 4) 2018-19 crop estimate

Region	Area (Ha)		% Var	Yield (MT/Ha)		% Var	Production (MT)		% Var
	2017-18	2018-19		2017-18	2018-19		2017-18	2018-19	
West	348,611	352,799	1%	0.52	0.59	13%	182,613	208,959	14%
S-West	105,975	108,312	2%	0.81	0.44	-46%	85,462	47,340	-45%
South	198,643	195,722	-1%	0.51	0.77	52%	101,547	151,607	49%
East	65,089	65,155	0%	0.28	0.44	55%	18,345	28,494	55%
North	978	1,008	3%	0.69	0.86	24%	679.23	868.09	28%
Ethiopia	**719,296**	**722,995**	**1%**	**0.54**	**0.60**	**12%**	**388,645**	**437,267**	**13%**
K Bags							**6,477**	**7,288**	

Graph 2) 2016/17 vs. 2017/18 Crop Estimate



2. Washed and Unwashed estimate

Washed production in 2017-18 was roughly 24% lower than in 2016-17 but early shipments were heavily covered out of the previous years carry-in, balancing availability. Alongside this some buyers who had been major consumers of Washed Ethiopia reduced their demand as they began to take a view that Ethiopia no longer merited such a high premium. In 2018-19 we see an increase in washed production by 25% to 65,759MT with predominant increase being in the South (+51%) (see table below). Buying prices in 2017-18 touched as high as 20-24ETB as new entrants came into the market. Initial prices in 2018 of 9.5-10ETB suggest that levels will be much lower this year as washing station operators offer in a constrained credit environment as a reaction to a poor 2017/18. This may reduce the flow of cherry into washing stations and increase the proportion of unwashed however farmer reactions are unpredictable.

The 2017-18 Unwashed production estimate at 334,062MT was revised slightly upwards post harvest based on stock reconciliation. The 2018-19 crop we see as 11% higher than this at 369,273MT with the biggest volume gain again coming from the South. High volumes of carry-in stock in the hands of Wellega farmers (8-9%) could see some issues on faded or oldish cups in the Lekempti qualities. We would normally expect in an off-crop year for the South-West that overall Djimma quality should be higher, however questions will remain over price and availability as with large rumoured shorts in Sidamo unwashed, some coffees may be purchased for blending.

Harar could present an interesting year with a much higher than average crop across the producing regions (East/West & Central), potentially even at a level enough to satisfy Middle Eastern and Specialty demand and allow a price point acceptable again to mainstream roasters.

Table 5) Washed and Unwashed coffee production estimate[2]

Region	2017-18 washed & unwashed (%)		2018-19 washed & unwashed (%)		2017-18 washed & unwashed (%)		2018-19 washed & unwashed (%)		% Var. 18-19 Vs17-18	
	Wet	**Dry**	**Wet**	**Dry**	**Wet**	**Dry**	**Wet**	**Dry**	**Wet**	**Dry**
West	10%	90%	8%	92%	18,153	164,459	17,293	191,666	-5%	17%
South-West	6%	94%	6%	94%	4,891	80,570	3,067	44,273	-37%	-45%
South	31%	69%	31%	69%	31,538	70,009	47,635	103,972	51%	49%
East	0%	100%	0%	100%	-	18,345	-	28,494	0%	55%
North	0%	100%	0%	100%		679		868	0%	28%
Ethiopia	14%	86%	16%	84%	**54,583**	**334,062**	**67,994**	**369,273**	**25%**	**11%**

2 NB. Relevant Conversion Ratios: 100KG Fresh Cherry = 18KG Clean Coffee / 100KG Dry Cherry = 40Kg Clean Coffee / 28ETB = 1 USD

Table 6) Breakdown of Washed and Sundried production

Zone	Washed & Sundried production					
	2016-17		2017-18		2018-19	
	Washed	Sundried	Washed	Sundried	Washed	Sundried
Jimma	8,857.00	35,756	9,392	51,715	9,502	35,909
Ilubabor	4,285.00	57,457	5,471	49,329	6,256	68,094
Wellega	4,056.00	78,181	3,290	63,415	1,535	87,662
West	17,198	171,394	18,153	164,459	17,293	191,666
Gambella	103	4,330	202	8,503	68	3,559
Bench Maji	911	19,041	1,576	32,932	1,488	16,622
Kaffa	1,097	6,289	1,781	10,207	955	7,323
Sheka	652	14,421	1,160	25,640	427	14,791
Others	95	1,802	173	3,287	129	1,978
South-West	2,858	45,883	4,891	80,570	3,067	44,273
Wolaita	-	2,491	-	1,981	-	2,951
Kembata Tembaro	-	14,949	-	10,772	-	17,644
Sidamo	33,580	25,877	21,085	21,133	30,135	25,882
Gedeo	13,861	32,501	6,467	18,862	12,071	28,476
Borena	4,295	17,182	3,883	13,528	5,249	22,214
Amaro	139	1,172	87	1,099	142	1,847
South Omo	24	812	17	568	38	1,104
Gamo gofa	-	3,088	-	2,066	-	3,853
South	51,900	98,071	31,538	70,009	47,635	103,972
Bale		3,931	-	2,700	-	4,270
West Harar		6,568	-	9,921	-	16,130
East Harar		4,049	-	5,725	-	8,094
East	-	14,548	-	18,345	-	28,494
Others		658		842		868
Totals	**71,956**	**330,554**	**54,583**	**334,225**	**67,994**	**369,273**

Highlights:

- **Djimma Unwashed complex:** Jimma (formerly Jimma A under ECX coding) the fruitier sweater component is off-cycle, while the more winey Illulabor will predominate. This coffee is also generally cleaner. The reduction in a big way of the forest components of Benchi Maij and Sheka which often add musty or vegetal notes and tend to be seen as showing less origin character should support this.
- **Limu coffee** is likely to be available at a comparable volume to 2017/18 despite a smaller crop as a number of new washing stations begin operation in areas such as Gera near Agaro. The floral components from Kaffa are reduced.
- **Sidamo** coffee is plentiful everywhere. In such a major on-cop year we expect to see continued differentiation of qualities seen in a minor way in the past two seasons, such as Guji (Borena Region), sold under their own quality descriptions. The overall large volume could reduce the availability of very top qualities due to stressed drying capacities. In general this should be felt least in Borena where more focus has been put by new entrants into the Washing Station Operation sector and therefore there has been greatest expansion in new capacity.
- **Guji** unwashed not only as a specialty quality but as a better quality and more consistent unwashed Gr 4 we believe will enter the market with greater impact in 2018/19 as buyers hurt by blending in of other qualities in 2017/18 in Sidamo 4 look for a more stable quality profile. This will be supported by the large unwashed production, although pricing will remain at a premium to Sidamo 4 commercial for the same reasons.
- **In Harar** the predominant on-region is the West, although all the regions included under its description are having a good production year. The predominance by volume of Western Coffees means quality specifications will be important to ensure the cup profile.

3. Farmers Harvesting and selling pace 2017/18

The 2018/19 crop harvest started on schedule, 2-3 weeks earlier than 2017/18 and on time to enable first washed shipments in JAN/FEB and unwashed in MAR/APR.

Table 7) 2018-19 Harvesting Pace (est.)

Zone	Harvesting pace of 2018-19 crop (%)-TOTAL							
	18-Sep	18-Oct	18-Nov	18-Dec	19-Jan	19-Feb	19-Mar	19-Apr
West	0%	7%	33%	37%	22%	1%	0%	0%
S-West	4%	10%	40%	36%	10%	0%	0%	0%
South	0%	23%	39%	30%	7%	1%	0%	0%
East	0%	21%	34%	32%	13%	0%	0%	0%
Ethiopia 2017-18	**1%**	**13%**	**36%**	**35%**	**15%**	**1%**	**0%**	**0%**
Cumulative	**1%**	**14%**	**50%**	**84%**	**99%**	**100%**	**100%**	**100%**

Table 8) Farmers selling pace of 2018-19 Crop (est.)

Zone	2018-19crop Selling Pace-Total(%)										
	18-Sep	18-Oct	18-Nov	18-Dec	19-Jan	19-Feb	19-Mar	19-Apr	19-May	19-Jun	Stock 31st June
West	0%	1%	6%	4%	11%	13%	15%	15%	13%	11%	11%
South-West	1%	3%	3%	5%	7%	13%	22%	18%	12%	10%	4%
South	0%	9%	13%	8%	4%	10%	14%	14%	11%	10%	7%
East	0%	0%	0%	4%	18%	19%	14%	15%	12%	9%	9%
Ethiopia 2017-18	**0%**	**3%**	**7%**	**5%**	**9%**	**13%**	**16%**	**15%**	**12%**	**10%**	**9%**
Cumulative	**0%**	**4%**	**10%**	**16%**	**25%**	**38%**	**53%**	**68%**	**81%**	**91%**	**100%**

Table 9) Comparison of the farm gate coffee price:[3]

Region	Ave 17/18 season Price(ETB/KG)			Existing Price (ETB/KG)			2017-18vs 2018-19		
	Fresh	Dry	Bean	Fresh	Dry	Bean	Fresh	Dry	Bean
West	**11.78**	**29.14**	**59.94**	**9.50**	**31.40**	**66.48**	**-19%**	**8%**	**11%**
S-West	**10.96**	**21.18**	**47.33**	**7.00**	**24.30**	**54.38**	**-36%**	**15%**	**15%**
South	**15.16**	**32.64**	**72.10**	**10.00**	**32.67**	**79.02**	**-34%**	**0%**	**10%**
East		**29.18**	**63.90**		**35.00**	**71.73**		**20%**	**12%**

[3] NB. Relevant Conversion Ratios: 100KG Fresh Cherry = 18KG Clean Coffee / 100KG Dry Cherry = 40Kg Clean Coffee / 28ETB = 1 USD

E. Concluding Highlights:

- **Headline: Lots of coffee – potential for average quality washed and great quality naturals throughout the spectrum. Top lots of southern washed coffee however may be harder to come by due to stressed processing capacity and rains at the beginning of the processing season.**

- The **Southern crop** is in a big on-year with a significant recovery from last year when crop was not only off-cycle but suffered from frost damage for the first time in several decades. This however could stress processing capacity for washed coffees so while average qualities will be abundance top lots will be at a premium. On the unwashed front, big shorts already in market due to unmet demand for Asia in 2018 mean that despite a record crop position suggest a higher probability that Sidamo 4 will remain expensive. As Guji is now its own designated quality and is generally marginally higher quality we expect to see Guji 4 begin trading as an unblended alternative to the often blended coffees being shipped under the label “Sidamo 4”.

- The **Western unwashed crop** is on-cycle in Wellega and Illulabor but off cycle in Jimma, meaning the overall crop is up. As the components often blended into Djimma coffees are off-cycle cup quality should be improved. Prices however might be high if the shorts for Gr 4s for Asia drags upwards the overall unwashed complex.

- The **Western washed** coffees (plantations / washing stations producing Limu) should be in similar availability to 2017/18 despite an off-cycle year as expanded processing capacity makes up for losses in production volume in the key washed regions. The price gap to Sidamo is likely however to narrow in a low New York market and with Limu potentially showing better average quality due to better drying conditions.

- The **South-West** is having an off-year for the ECX traded farmer volumes. This means that cheaper Djimmas may be less available as these components will be unavailable for blending in however cup quality will be better. The greater identifiability of the different coffees formerly lumped under “Forrest” at ECX now “Sheka” / “Benchi Maji” / “Kaffa” / “Gambella” mean new qualities may become apparent.

- **Harar** should become again at last a tradeable quality as the volume recovers.

- **Traceable / Certified Coffee:** As the regulation put forward in 16/17 has finally been ratified we now see a significant number of Washing Station operators embracing certification with a spread across regions but a greater number in Limu.

Overall we are extremely optimistic about the 2018/19 season with the caveat that the political situation remains stable. Coffee volume has recovered in the right regions for better unwashed quality and subject to good management it is also a great volume crop for washed coffees. We are also excited to see what new volume qualities we can offer as new ECX qualities begin to take effect and contract qualities such as, Guji Gr 4 or Anderacha become more widely traded.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