

Coffee Ithaka S.A.

Ethiopia 2021/22 Crop Estimate

December 2021



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EXECUTIVE SUMMARY

It has been a difficult year for Ethiopia, fighting irrupted in November 2020 in the North of the country and spread southwards over the course of the last 12 months. Today the country appears more unstable than it was 1 year ago as other rebel groups aligned themselves to the Tigray Rebels fighting the Central Government and vying for greater regional autonomy in various parts of the country. Insecurity has spread throughout the country, in one way or another, reaching everyone. This has affected the work in the field to collect data to prepare our Crop Report. Insecurity and the pandemic have hampered our ability to travel to the growing areas, so much so, that our report this year is more of a guesstimate than based of tree observation and scientific approach and rigour! We are relying much more on anecdotal evidence and different stakeholder opinions to reach the figures that we layout in this report.

2020/21 Crop

We had estimated a good crop at 439 K MT and we have not changed that figure. However we now estimate that Carry In stocks were higher by 15 k MT than our original estimate, due to the high Exports between March and September 2021. Indeed every month in this period was a record month; shipments surpassed our estimates by over 40 K MT. Shipments in October continued strong surpassing 20 K MT and in November are also likely to be high. As expected there was less Djimmah quality available and more Lekempti and Washed Sidamos. Weather played an important role in the good volumes and excellent quality of the 20/21 crop. We have made any substantial changes to our estimated Internal consumption or stock figures. We also believe that as a consequence of political instability over the past 12 months both Internal Consumption and Unrecorded Exports (smuggling) have decreased; we have decreased our Domestic Use figure by 11,000 MT. Given strong Exports for October 21 and forecast for November our Carry Out figure as of end September 2021 is estimated at 72 K MT.

2021/22 Crop

We are estimating an even higher crop in 2021/22! Farmers are motivated by improved prices and plantations that have been started in the last few years are coming into full production. Greater liberalisation of internal marketing systems (Vertical Integration) which allows for Exporters to negotiate directly with Agrabes and farmers, by-passing the ECX, have improved prices and services. The international market has also played its role in pushing prices up at farm gate level. The move away from ECX to Direct buying through Private Treaty is now the preferred way for coffee to move from the interior to exporter. The number of registered exporters has exploded to over 600 registered exporters as increasing numbers of importers and manufacturers look at coffee export dollars as a means of enabling access to imported goods for their main businesses. We have an On year in areas like Benchi Maji and other “Djimmah” growing areas which are some of the most productive in Ethiopia. Lastly weather has favoured coffee production this year and regions where we could expect the trees to produce less this year are, on the contrary, up. Prices at the start of the harvest are between Birr 30 and 40 per KG of cherry, which is a very large spread (over 70 c/lb), are a consequence of competition. Production is Estimated at 470 K MT for 21/22 a 7% increase on 20/21.



1. INTRODUCTION

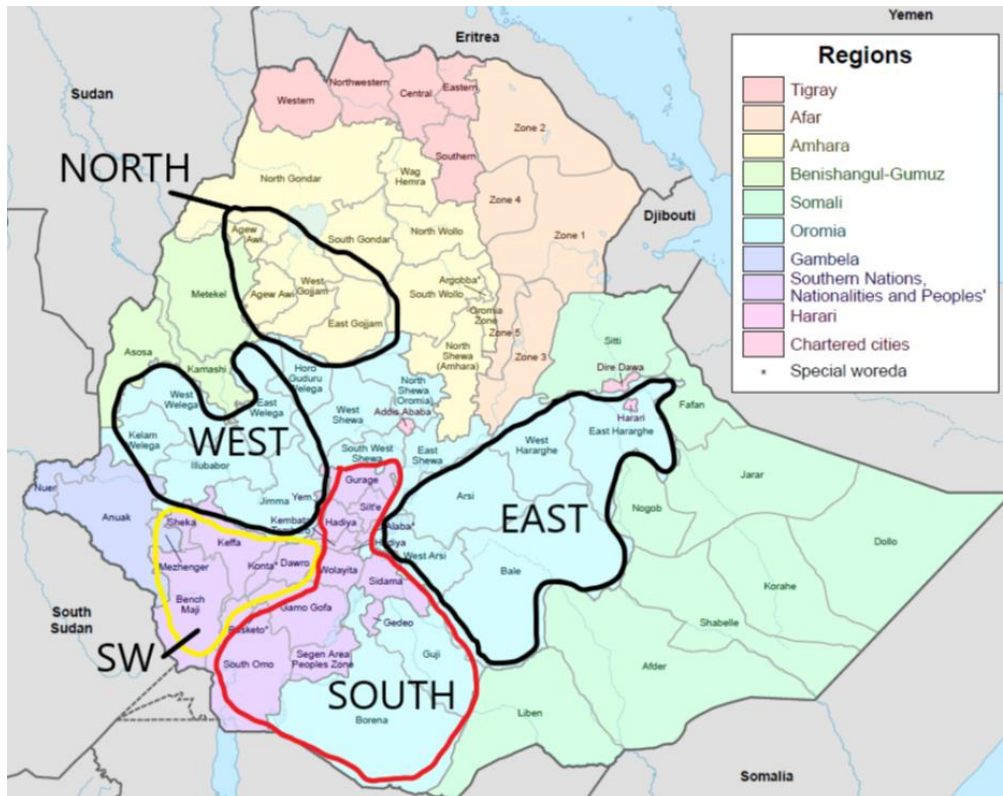
1.1. General Thoughts on the 2021/22 Crop

2021/21 crop is estimated at 470,322 MT (7,838 K bags) which is 7% higher than the 2020/21 crop.

Harvesting started 2 to 3 weeks later than usual due to a later flowering than usual, a direct consequence of the late arrival of flowering rains. Therefore, harvesting started in November rather than in October and is likely to go on until February 2022. The most significant change in production between last harvest and the current 2021/22 harvest is in the South West, where last season the crop was low and this season is expected to rebound by nearly 500 k bags (an increase in production of 55%). In the South production is expected to decrease by 13% and since we are expecting a higher proportion of the crop to be Naturals there will be less Sidamo 2 available. Generally speaking we are expecting a higher proportion of Naturals this crop because the areas where production increases (vs last season) are the regions that traditionally produce a higher percentage of Naturals (like Jimma and Kaffa). There will be plenty of Djimmah 5 available for export in 2022, which has not been case this year, for the last few weeks Djimmahs have vanished from the market.

1.2. Methodology

It has been difficult to move around the country for crop surveys. Some areas like Wellega (Limu) have been extremely insecure so farm visits have not happened. Other places have had curfews and a heavy security force presence which has hampered data collection. Therefore we are relying more heavily on information collected from interviews and discussions with partners. Below we have a map of the different growing areas:



1.3. Production, Exports, Domestic Consumption and Stocks

2020/21 Crop was a large crop, however what really surprised us were the shipments. Shipments were 40 K MT above what we were projecting in our last crop report of November 2020. Exports totalled 277 K MT (Oct 20 to Sep 21) with some months above 30 K MT; many of the last few months have been record shipment months. We therefore revised up our Carry In Stocks and concluded that war in Northern Ethiopia and the instability in Sudan contributed to a decline in Domestic Use (which includes coffee smuggled to Sudan). Without a doubt, high export prices also contributed to these record export figures.

Table. 1) Supply and Demand

October to September ('000 bags)							
	SUPPLY			DEMAND			
	Carry In	Production	Total	Dom. Use	Exports	Carry Out	
18/19	1,239	7,116	8,355	2,799	4,201	1,355	
19/20	1,355	7,197	8,552	2,924	4,063	1,565	
20/21	1,565	7,320	8,885	2,647	4,622	1,616	
21/22*	1,616	7,838	9,454	2,890	4,968	1,596	*Estimate
22/23**	1,596	7,614	9,210				**Projection

2. REVIEW OF THE 2020/21 CROP

2.1. Internal market situation

It has been an eventful year! The country went to war with itself in November 2020 and it is still raging on. The country has been very unstable politically and uncertainty has been weighing very heavily on Ethiopian minds. Additionally neighbouring Sudan has also been very unstable. On a positive note, the international price for coffee has soared having doubled in the last 12 months. The ECX has become the secondary internal market with most shippers now sourcing their coffee directly from upcountry suppliers. The number of shippers has also soared, more businesses than require dollars to pay for imported goods to trade or use in manufacturing have turned to coffee export to acquire the needed currency and some smugglers became licensed shippers as improved export prices viz a viz Ugandan Robusta prices dried up demand from neighbouring countries. Internal demand has indeed been negatively impacted by war and better export prices. Continuous devaluation of the local currency has also aided in creating increasing export demands. We believe that many of these factors will continue to be relevant in 2022 and will be major contributing factor for increased exports in 2022. Quality of the 20/21 crop has been very good and this is likely to also perpetuate foreign demand, particularly as other Naturals from other countries are in reduced supply.



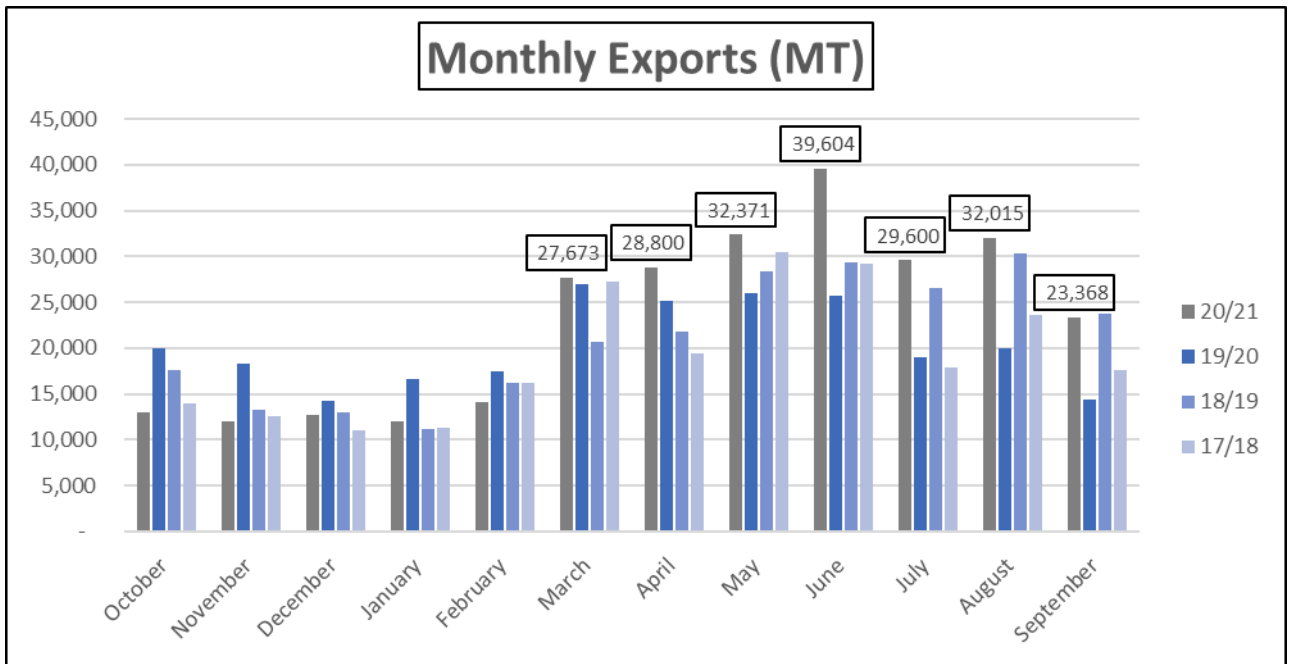
Table.2) Review of the 2020/21 Crop

Region (MT)	Production 20/21
West	185,965
S-West	52,647
South	170,556
East	28,110
North	1,938
Ethiopia	439,217
K Bags	7,320

2.2.2020/21 Export Performance

What an incredible year in Exports! Certainly, we expected a better year than the previous 12 months, but who could have predicted record month after record month in exports! From March onwards every month of Exports was a record. Our export projections from a year ago were surpassed by 17% or 40 K MT!

Table.3) Export Performance



The Currency (as always) also devalued at a steady pace. The 12-month period Oct 20 to Sep 21 saw the Birr devalue over 25% to the USD. However, inflation has been rampant, in particular food and basic goods prices have increased by 35+ %.



Table.4) Forex rate evolution

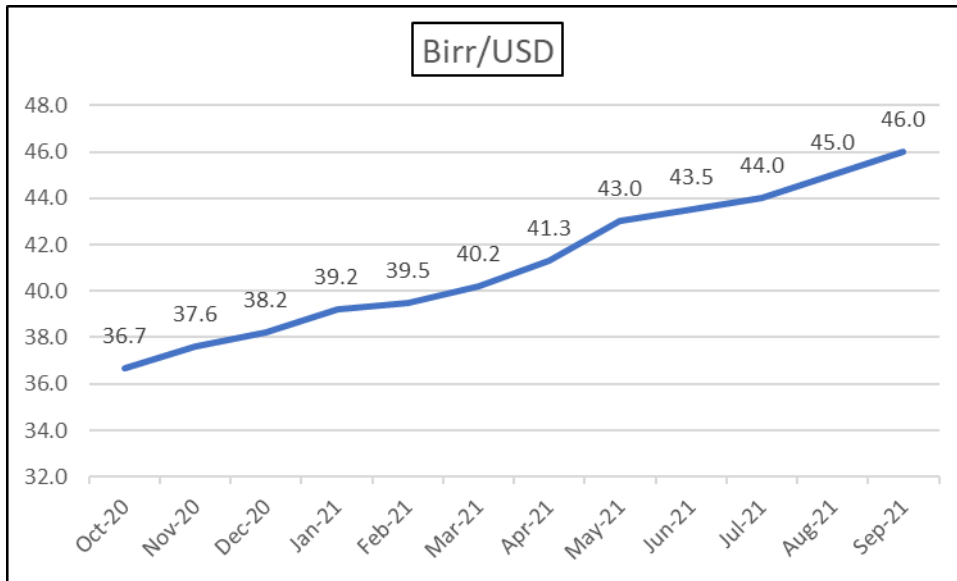


Table.5) Comparison of Export figures

Month	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Oct	11,375	15,108	13,923	18,902	17,674	19,966	13,018	22,120
Nov	10,184	13,453	12,547	17,409	13,263	18,328	11,964	25,005
Dec	8,328	10,420	11,013	15,167	12,992	14,188	12,757	15,635
Jan	6,807	12,652	11,259	13,508	11,166	16,570	11,995	15,106
Feb	12,462	13,044	16,196	16,607	16,199	17,456	14,132	18,272
Mar	18,497	18,020	27,214	22,236	20,739	26,949	27,673	27,693
Apr	21,530	17,984	19,443	25,588	21,809	25,135	28,800	28,753
May	23,628	24,614	30,441	26,142	28,449	25,967	32,371	32,044
Jun	28,324	24,555	29,262	27,082	29,294	25,790	39,604	34,553
Jul	15,555	16,265	18,412	17,928	26,512	19,015	29,600	26,404
Aug	18,964	19,198	20,722	23,694	30,279	19,995	32,015	30,073
Sep	14,295	12,450	16,692	17,557	23,696	14,433	23,368	22,432
Total	189,949	197,764	227,124	241,819	252,072	243,791	277,297	298,089
Production-MT	347,265	339,691	403,785	388,645	426,987	416,835	439,217	470,322

We expect the export pace to continue above average for the coming months until the New Crop 2021/22 starts to get shipped. As expected from March 2022 onwards exports should reflect the higher crop, particularly when the Naturals from the West and South West peak.

2.3 Reconciliation of Supply, Demand and Stocks

As mentioned previously we were surprised by the pace of shipments from Oct 20 to Sep 21 and therefore increased the Carry In Stocks and 19/20 Production. Furthermore we believe that some of the production that would normally be consumed internally or get smuggled to neighbouring countries was drawn to the official export market as international prices increased. Combined we added 51 K MT to the Supply side of the equation (30 K MT from previous year’s production and 21 K MT from Domestic Usage).



Table.6) Reconciliation of Balance Stock

2020-21	MT	K bags		
Carry in	63,928	1,065		
Production 19/20	439,217	7,320		
Total Supply	503,145	8,386		
Dom Use (Oct `20-Sept`21)	179,820	2,997		
Exports (Oct `20-Sept`21)	277,297	4,622		
Total Physical Disappearance	457,117	7,619		
Implied stocks	46,028	767		
Estimated stocks	97,028	1,617		
Exporters	29,531	492		
ECX warehouses	2,161	36		
Upcountry traders	36,524	609		
Domestic market	18,007	300		
Farmers	10,804	180		
Surplus	51,000	850		
			Difference from Estimated 1 year ago	
			MT	Δ %
Revised Carry In Stock 20/21	93,928	1,565	30,000	47%
Revised Dom Use 20/21	158,820	2,647	-21,000	-12%

3. 2021/22 CROP ESTIMATE

3.1 2021/22 Crop Production Estimate

The 2021/22 crop estimate is revised upwards compared to our projections a year ago. The recovery in areas like Jimma, Kaffa and Gambella account for these figures. Our current estimate is 470 K MT and a year ago it was 435 K MT. Good Weather conditions, on cycle in the West and South West region, new plantings and renewed encouragement in coffee production derived from high prices have all played a role in estimating a record crop for 2021/22. The South sees a reduction in production and probably more importantly we expect that the Washed / Natural split will be skewed towards Naturals, due to limited cash at harvesting while farm gate cherry prices have doubled.



Table.7) 2020/21 Crop Estimate

Areas	2020/21	2021/22	Δ 20 to 21
Jimma	51,200	84,390	65%
Ilubabor	59,358	50,544	-15%
Wellega	75,407	79,643	6%
West	185,965	214,577	15%
Gambella	4,773	11,723	146%
Bench Maji	20,845	22,504	8%
Kaffa	9,549	26,587	178%
Sheka	15,554	14,878	-4%
Others	1,928	5,814	202%
South-West	52,649	81,506	55%
Wolaita	2,461	6,489	164%
Kembata Tembaro	15,878	7,032	-56%
Sidamo	56,927	43,901	-23%
Gedeo	62,732	43,959	-30%
Borena	25,637	37,431	46%
Amaro	1,804	2,834	57%
South Omo	942	1,889	101%
Gamo gofa	4,175	5,460	31%
South	170,556	148,995	-13%
Bale	4,371	7,106	63%
West Harar	15,316	15,063	-2%
East Harar	8,423	2,360	-72%
East	28,110	24,529	-13%
Others	1,938	715	-63%
Ethiopia	439,218	470,322	7%

As mentioned in our introduction our work in researching and collecting data to elaborate this report has been hampered by the unfortunate political events aggravated by the pandemic. However we feel confident in our numbers and are encouraged that these are aligned with the Coffee and Tea Authority (C&TA) numbers.

We also feel that due to circumstances that presented themselves during the harvest it is likely that this crop will produce a higher proportion of Natural vs Washed coffees. This due to 2 main reasons. Firstly, the larger crop this year is due to growth in production in areas that typically produce more Naturals than Washed coffees i.e. Jimma and secondly, the relatively reduced amount of cash available at farm gate level during harvest for the purchase of ripe cherries to wash; this because the current political turmoil is affecting normal economic activity and the high prices per kg cherry return less quantity. In other words, whereas in cherry purchasing the cash available is only used once (the season is over before cherries can be turned into a saleable commodity) in Naturals the same cash can be used to buy coffee a number of times since the season is extended. A third, not so important reason, lies in washed processing capacity. This is finite and limited to the number of operating washing stations, we understand that not all are operating and this could mean that some coffee that could have been washed will not be and therefore become Natural.



Washed and Natural production Estimates

Below table shows production of Natural vs Washed. Export wise we expect the slip to be, as usual, more skewed towards Washed, and the breakdown to be 1/3 Washed and 2/3 Natural which is what it has been traditionally, give or take a couple percentage points.

Table.7) Washed Natural breakdown

Areas	2021/22				
	Washed	Natural	Total	Washed	Natural
Jimma	8,439	75,951	84,390	10%	90%
Ilubabor	2,527	48,016	50,543	5%	95%
Wellega	1,593	78,050	79,643	2%	98%
West	12,559	202,017	214,576	6%	94%
Gambella		11,723	11,723	0%	100%
Bench Maji	5,626	16,878	22,504	25%	75%
Kaffa	2,658	23,929	26,587	10%	90%
Sheka	1,486	13,392	14,878	10%	90%
Others		5,814	5,814	0%	100%
South-West	9,770	71,736	81,506	12%	88%
Wolaita	1,298	5,191	6,489	20%	80%
Kembata Tembaro	1,406	5,626	7,032	20%	80%
Sidamo	17,561	39,527	57,088	31%	69%
Gedeo	12,308	18,463	30,771	40%	60%
Borena	14,973	22,458	37,431	40%	60%
Amaro	1,938	896	2,834	68%	32%
South Omo		1,889	1,889	0%	100%
Gamo gofa		5,460	5,460	0%	100%
South	49,484	99,510	148,994	33%	67%
Bale		7,106	7,106	0%	100%
West Harar		15,066	15,066	0%	100%
East Harar		2,360	2,360	0%	100%
East	-	24,532	24,532	0%	100%
Others		715	715	0%	100%
Ethiopia	71,813	398,510	470,323	15%	85%

3.2 Farm Gate Prices

2020 harvest saw improved prices due to the devaluation of the local currency vs the USD and improved terminal market vs the same period in 2019. Additionally, expectations were for higher prices during the main marketing season first 4 to 6 months of 2021. These expectations proved right as international markets soared so did coffee prices in Ethiopia. Farm gate prices have started this season at around 30 Birr per kg cherry and are currently in the mid 40's in the Southern region.



4. 2022/23 CROP PROJECTION

4.1.2022/23 Crop Projection

Under normal conditions the 2022/23 crop should yield 456,868 MT as follows:

Region (MT)	Production 22/23
West	195,165
S-West	50,903
South	181,835
East	28,363
North	602
Ethiopia	456,868
K Bags	7,614

These figures are our projected numbers, our conclusions are reached within the limitations that we have had to operate under this year.

