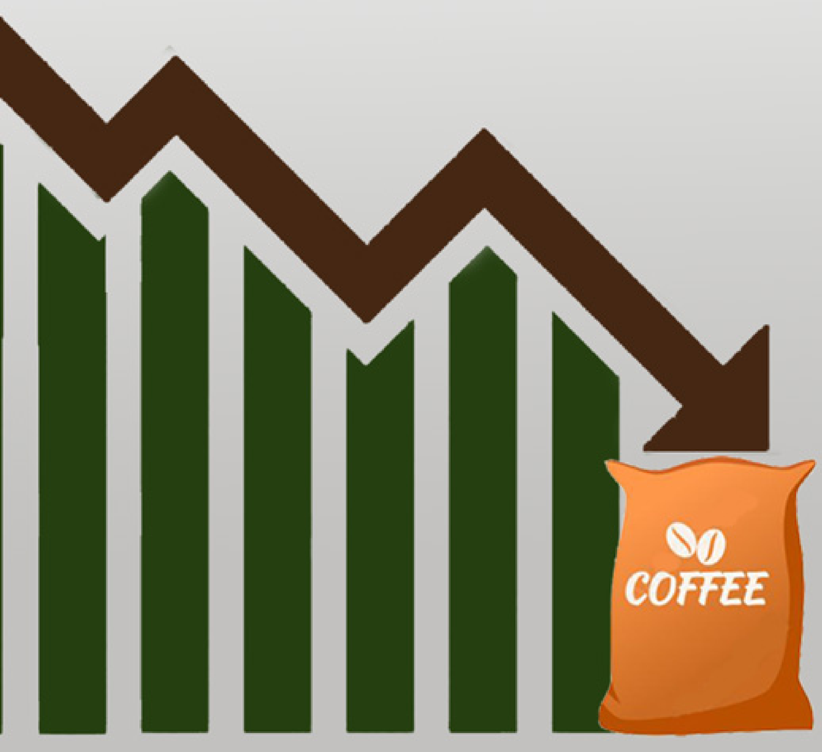

ON THIS EDITION

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Challenges and Outcomes

This year Ethiopia has experienced above average rainfall, mostly in the Southern coffee growing regions of the nation. The rainfall that started in the mid of February has continued to fall to this day.

This heavy and non-stop rainfall has caused flooding, road & infrastructure damage, and harm on agricultural products.

One of the biggest challenges we faced this year in the coffee sector was related to logistics. The heavy rainfall made the roads at coffee growing regions too muddy hampering the movement of coffee from origin to our warehouse located in Addis Ababa. Our trucks carrying coffee were stuck in the mud quite a few times, making timely delivery very challenging.

Furthermore, the above average rainfall made it very challenging to keep moisture levels within the acceptable range. In order to keep moisture contents in the acceptable range, we had to sun-dry the coffee for longer than usual days before transporting it to Addis. Once the coffee reaches Addis, in order for it not to absorb moisture where it is still raining, we had to quickly process, pack and export the coffee.

Thankfully, even though it took much energy, all of our export coffees were within the acceptable range of moisture and best cup quality.

Truck carrying coffee stuck in mud. Our other two trucks unable to pass.

Local vs. International Markets

Brazil, the largest coffee growing country producing 40% of Arabica coffee, is experiencing a favorable weather that has eased frost fears, paving the way for an accelerated harvest. As a result, coffee prices at the New York C market are continuing to plummet.

According to USDA Foreign Agricultural Service, the world coffee production in 2023/24 will increase by 2.5% y/y to 174.3 million bags, with a 6.9% increase in Arabica production to 96.3 million bags, and a -2.4% decline in Robusta production to 78 million bags. Also, USDA FAS has forecasted that in 2023/24 Brazilian coffee production will increase by 14.5% to 67.9 million bags, while projecting for Vietnam's production to decline by -3.5% to 30.2 million bags. Over all, it is forecasted that the ending stock of 2023/24 will edge higher by 0.8% to 31.8 million bags from 31.6 million bags in 2022/23.

In Ethiopia, even though we are approaching the end of the coffee season, prices of coffee are increasing in many parts of the coffee growing regions. Commercial coffees, which used to be sold between 4,000 to 4,200 birr/feresula in the month of May, are now selling between 4,800 to 5,300 birr/feresula in many parts of Sidamo and Guji areas.

Due to the price decline in the international coffee market, we are observing mixed emotions among exporters. Some are taking a step back from signing new contracts and only fulfilling contracts on their hands, while other exporters with stock in their warehouses are finding it difficult to find market for their coffees due to price variance between local and international markets.

In the midst of these difficult situations, the Ethiopian Coffee and Tea Authority is taking hard measures on those who hoard coffee. Just last month, 7 warehouses were forced to close after the Authority found hoarded coffee. Furthermore, the Ethiopian Revenue Authority has started imposing 15% VAT plus penalties on exporters that hoarded coffee for 12 months or more. This move by the Authority has created a shock wave throughout the industry.

June Overview

June is the most challenging month in the coffee industry. Due to the Ethiopian fiscal year ending on July 7, it is during the month of June where exporters rush to export their stocks. As a result, processing warehouses are crowded with customers rushing to get a spot for cleaning and packing their coffees. On top of a crowded processing mills, there are extreme shortages of containers at major shipping companies such as CMA-CGM and MSC – a problem that continued from last month. Even though Maersk had a better availability of containers, exporters were forced to wait a week to secure empty containers.

We anticipate for the month of July to be a calm month relatively because the rush to ship coffee will decline as most exporters will have already shipped their coffees. As with previous months, we have a good number of contracts on our table in July, and plan to export our coffees as per the schedule.

Sincerely,

Dagmawi Yimam, Managing Director

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