



# COFFEE FUTURES ARE CRASHING

Unlike the previous years where harvest season was expected with enthusiasm, this year's harvest season started with confusion and uncertainty in Ethiopia.

One of the main concern for coffee producers has been about the mismatch between local prices in contrast to international prices.

In August, Arabica coffee futures were trading at \$2.43 per pound. By Wednesday, November 16th, the price had tumbled to \$1.59, a roughly 35% decline.

There are a few reasons for the steady drop in prices. For one thing, weather in Brazil is better than it has been the past couple of years. Rainfall this fall suggests that the country will have a good coffee crop, securing supply.

Then there's the strength of the U.S. dollar.

When the dollar goes up, everything measured in dollars, like international coffee prices, tend to go down. Failure to follow the exchange-traded contracts on the Intercontinental Exchange (ICE) is causing confusions in the Ethiopian coffee market.

In most coffee growing regions of Ethiopia, the selling prices of red-cherries started in view of last year's selling price.

As a result, many washing stations halted while some reduced the quantity of red-cherries they are buying while hoping that their collective efforts will force prices to go down, but this strategy has not proved to be successful. Even though red-cherry prices at some areas have decreased, it has not gone down to a level where it would be profitable for producers to export that coffee.



For instance, on November 16, one kilogram of red-cherry was selling at 52 birr/KG in Deri area of Guji zone. Without adding any other processing or transportation costs, one pound of coffee would be equivalent to \$2.97/lb.

In my opinion, prices of coffee cherries will not reduce to an acceptable price point with the actions of few washing station owners. For prices to go down, government should play a critical role in bringing down cherry prices to a reasonable level – and fast. Otherwise, producers as well as exporters will face a difficult road ahead.

The areas where our coffee stations are located will start harvest by the end of this month. Even though we are ready for this coffee season to start, we will start buying our coffees by taking extra careful measures.

All in all, we believe that this season will be an exceptional one where producers and exporters will face many difficulties. However, by focusing on quality and careful spending we are certain that we will weather the storm.

Sincerely,

Dagmawi Yimam, Managing Director

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