

# Ethiopian Coffee Review

## 2016 Market Update

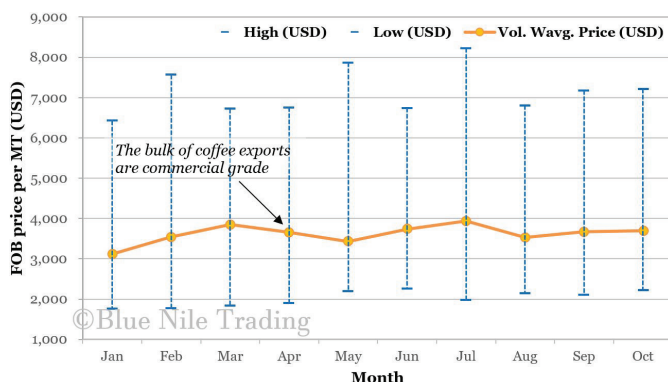
### 1. Export Trends

Importers demand a wide range of coffee types and grades

Ethiopian coffee FOB export prices have followed the general up-trend in global Arabica and Robusta prices this year. The volume-weighted average FOB export prices have increased c. 16% from January up until October, in-line with coffee C and Robusta futures.

Exhibit 1 shows, interestingly, the large range in coffee export prices each month. Over the year, this averages to be c. 5,000 USD per MT and is indicative of the demand by importers for all types and grades of Ethiopian coffee. The bulk, however, is commercial grade as the volume-weighted average is near the low-end of the price range.

**Exhibit 1: Coffee FOB export prices, Jan-Oct 2016**



Source: Blue Nile Trading Limited, ERCA

Ethiopian coffee exports for the first ten months of 2016 were c. 170,000 MT with the Ethiopian Commodity Exchange accounting for c. 70% of these volumes. Nearly 40% of recorded exports happened during April, May and June – just after harvest where supply is greatest.

**Exhibit 2: Coffee FOB export prices and volumes, Jan-Oct 2016**

Month	High (USD)	Low (USD)	Vol. Wavg. Price (USD)	Volume (MT)
Jan	6,430	1,766	3,120	7,582
Feb	7,570	1,779	3,546	13,746
Mar	6,725	1,841	3,849	17,720
Apr	6,757	1,901	3,652	17,683
May	7,872	2,204	3,434	23,448
Jun	6,747	2,263	3,741	25,277
Jul	8,230	1,979	3,943	18,228
Aug	6,808	2,142	3,525	17,073
Sep	7,182	2,112	3,669	14,639
Oct	7,218	2,228	3,695	12,567

Source: Blue Nile Trading Limited, ERCA

Germany, U.S. and Saudi are the largest export markets

Nearly half of all Ethiopian coffee exports this year have gone to three destinations: Germany, U.S. and Saudi Arabia. In general, each country has a different demand profile with the U.S., U.K. and Australia importing premium coffees whilst Saudi, France and Japan prefer the low-grade types.

**Exhibit 3: Coffee export destinations, Jan-Oct 2016**

#	Destination	FOB Value (m USD)	FOB Value (%)	Vol. Wavg. Price (USD)
1	Germany	115.8	18%	3,372
2	United States	87.4	14%	5,205
3	Saudi Arabia	86.2	14%	2,895
4	Belgium	52.4	8%	4,214
5	Japan	48.5	8%	3,031
6	South Korea	38.5	6%	4,097
7	Italy	34.4	5%	4,066
8	France	30.0	5%	2,815
9	United Kingdom	22.8	4%	5,296
10	Australia	15.8	3%	4,547
11	Other	100.9	16%	3,637
	<b>Total</b>	<b>632.7</b>	<b>100%</b>	<b>n/a</b>

Source: Blue Nile Trading Limited, ERCA

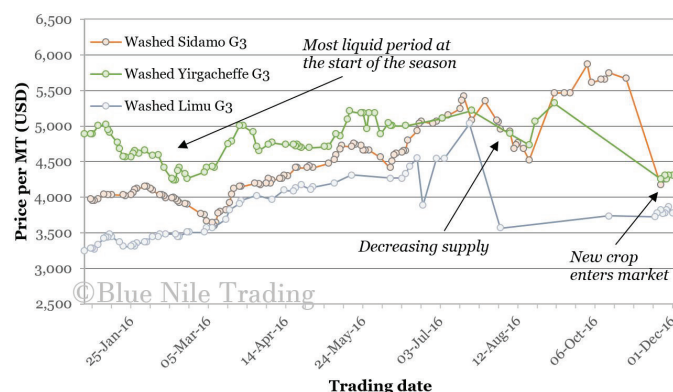
### 2. Market Prices

High-end Ethiopian coffee prices have converged in 2016

At the start of 2016, there was a clear spread between Yirgacheffe, Sidamo and Limu grade 3 coffee prices. As global commodities rebounded from multi-year lows, more demand went to lower-grade types, such as Limu, narrowing the spread between Yirgacheffe and Sidamo.

The new supply of Ethiopian coffee now entering the market and the US Dollar at multi-year highs will put pressure on prices in the medium-term. Micro forces such as revised Brazil crop forecasts can move these markets in the short-term.

**Exhibit 4: One-year Yirgacheffe, Sidamo and Limu grade 3 FOB price trends**



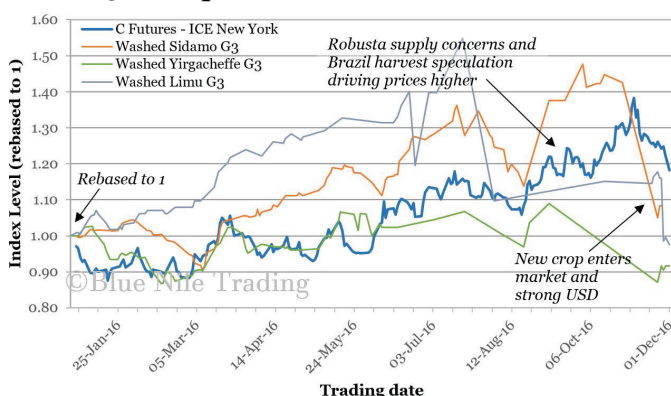
Source: Blue Nile Trading Limited, ECX

### Ethiopian coffee correlates well with coffee C futures

For most parts of the year, Ethiopian coffee futures correlate well with coffee C futures trading on ICE exchange. Sidamo showed the highest correlation with C futures in 2016 and can be most similar to the underlying reference coffees that comprise the futures contract.

Correlations break down just before the new coffee season where volatility is highest (see Exhibit 7). In general, Ethiopian coffee prices fluctuate at c. 2% per day (c. 32% per year) and moves between types and grades are well correlated. In times with low volatility, C futures can be an interesting hedging instrument.

### Exhibit 5: Ethiopian coffee vs. coffee C futures



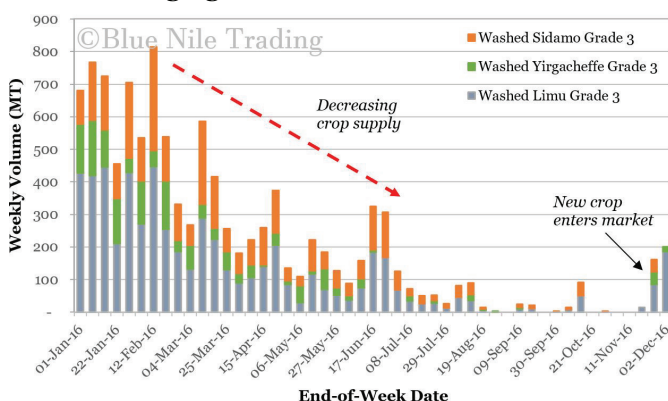
Source: Blue Nile Trading Limited, ECX, ICE Exchange

## 3. Volume Analysis

### Ethiopia's domestic coffee market remains strong

Ethiopia's Arabica 2016/17 production is forecast to be 390,000 MT, almost unchanged in the last five years. Just over half of production goes to exports, forecasted to be 210,000 MT, and the remainder is consumed in the strong domestic market.

### Exhibit 6: High-grade coffee volumes in 2016



Source: Blue Nile Trading Limited, ECX

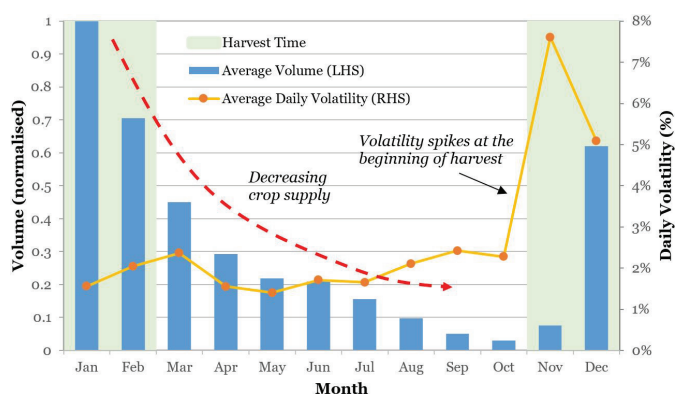
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### Most of the premium coffee supply is bought at the beginning of the coffee season

It is interesting to note that importers rush to the high-end coffees at the start of the season, before purchasing lower-grade later in the year. Exhibit 7 shows seasonally large demand in Dec, Jan and Feb compared to the bulk purchasing during the summer months (Exhibit 2).

### Exhibit 7: Seasonal coffee volume & volatility trends

Five-year averages for Yirgacheffe, Sidamo, Limu grade 3



Source: Blue Nile Trading Limited, ECX

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