WILL THE NEW MONETARY POLICY BRING EFFECT TO COFFEE PRICES?

On December 20, 2022, harvesting of red-cherries started in Benti Neka Kebele of Dimtu city in Hambela Wamena Woreda of Guji zone. The Benti Neka Kebele, known for its highland and award winning coffees, is one of the areas in Ethiopia where harvesting starts late.

The selling price of red-cherries started with 74 birr/kg – equivalent to $4.22/lb.

Despite New York's C market prices lingering around $1.65/lb - for much of December, Ethiopian coffee cherry prices continue to rise and even in some areas such as Sidamo, Bensa surpassed 80 birr/kg.

To control inflation and combat macroeconomic situation in the country, National Bank of Ethiopia is putting in place tight monetary policies. For instance, NBE has recently introduced the establishment and operation of treasury bonds. Based on this new directive, banks will be required to buy treasury bonds at 20 percent from fresh loan disbursements.

According to an official at Awash Bank, this new directive coupled with the fact that the bank has not received sufficient amount of registered contracts from coffee exports, the bank is now taking extra-steps to weigh its cost-and-benefit analysis before dispersing new loans.

As a result of this new directive, we are starting to witness prices of some goods to drop. For example, in an unprecedented manner, prices of vehicles have shown a significant decline. According to The Reporter Ethiopia, the price decline is directly correlated to the discontinuing of bank loans.

On the other hand, the commodities research team at CITI bank has changed their price forecast for the 2023 futures of Arabica coffee. The bank has changed its prediction from 'neutral-bearish' to 'neutral-bullish'.

According to CITI bank, lower estimates for Arabica coffee production in Colombia, the world's second-largest coffee grower, and an expected increase in social interactions in China after the relaxation of the Chinese government's COVID policies are the main factors for updating its coffee market forecasts.

Furthermore, CITI Bank expects a global supply deficit of 0.9 million bags for 2023 after its predicted reset of the ICE Arabica price forecast .

In my opinion, it will not be long until the tight fiscal policy that was recently implemented by NBE to start showing its effect on the prices of coffee. It is not a matter of if but when for us to witness significant price drop on coffee prices. From my point of view, the inevitable drop of coffee prices in Ethiopia coupled with the predicted increase in prices of the New York C market will turn the grim outlook of the coffee export business into a more attractive one.

All in all, we at KANYA Coffee are certain that we will fulfill our planned export targets for 2022/2023 crop year. However, we strongly believe that our targets should be met by exporting quality products with fair prices. Yes, we are optimistic about the future but taking extra careful measures when planning ahead.

Sincerely,

Dagmawi Yimam, Managing Director

KANYA COFFEE EXPORT

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P.S. KANYA Coffee Export is pleased to inform that our company has received GACC registration number. Now, we are set to do business in China.

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