



Coffee Market Overview

28 July 2023

“Nothing compares to Brew”

- The week was dominated by central banks moving as expected; with the Fed and ECB raising rates by 25bps, yet both keeping a watchful eye on data before calling quits on the most aggressive monetary cycle in decades.
- While the US economy appears to be in strong shape, the Eurozone is showing signs of strain, which may yet give support to the US dollar.
- Regardless of dollar resilience, the BRL continues to be one of the best performing currencies, recently strengthening to 4.72.
- The latter may have lent support to arabica futures, which rallied as ICE certified stocks remain historically low. But the edge is still in Robusta, which remains well supported amidst concern that very little fresh coffee is coming to the futures market.
- Quarterly earnings at key consumer staple companies have shown strong sales figures, reflecting mainly higher prices in Q2, but also resilient consumer demand.
- Brazil’s harvest has passed the 75% mark, with farmers observing trees in very good condition; but there are concerns over forthcoming rains that may hurt the quality of the new crop.
- Trading activity in Vietnam’s physical market continued on a subdued note on very low stockpiles. Cash prices remain extremely elevated reflecting the tightness.
- ICE arabica certified stocks stand at 532k bags, while robusta certified stocks have dwindled further down to 5.2k lots.
- We estimate the net spec position in arabica is currently -12k lots and robusta is +34k lots.

Price Comparison

	<u>27.07.23</u>	<u>Change Vs. 20.07.23</u>
ICE Arabica Sep 23 (c/lb)	161.45	+3.4
ICE Robusta Sep 23 (\$/mt)	2673	+137
Arbitrage Arabica Sep 23 / Robusta Sep 23 (c/lb)	40.20	+2.82

ICE Arabica: A more supportive week as firmer differentials and a stronger Brazilian currency facilitated some technical buying and moved KC into the mid 160s for a short period. Reports of good physical demand provide additional support. Tighter nearby arbitrage in price and cash supports an arb long trade. Shorts are found in the form of a producer who looks to take advantage of slightly improved pricing. The chart is neutral.

Support: 159.5, 155.00, 144.50

Resistance: 165.50, 173.00, 181.20

ICE Robusta: The bull story re-engaged this week as the tight balance sheet continues to drive price and spreads. Differentials for Asian robusta remain at record high levels, certified stock is drawing however the chart remains neutral. Origin performance risk provides additional instability. The market now focusses on robusta shipments from Brazil and attempts to quantify the availability of certified stock vs the U.

Support: 2575, 2500, 2446

Resistance: 2670, 2800, 3040

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Brazil

- **Local Market:** With KC bouncing off last week's lows the internal market loosened up a little and allowed some coffee to flow from the producer to the exporters. Differentials did not change hugely but enough for some increased business to take place. Exports continue to be on the slow side for July and some increased demand was noted on the spot and some gap filling took place. Conilon diffs traded weaker vs Sep whilst demand remains consistent.
- **Weather:** Generally dry with some light rains over ZdM and Bahia. Forecast looking fairly dry and with little risk of cold weather on the horizon.
- **Economy / Politics:** A firmer BRL this week also facilitating the slightly higher price in KC.
- **Export Market:** Demand for arabicas has been consistent in the past weeks and continues. Conilon demand also is consistent as roasters internally and externally look to add coverage.
- **BMF (type 4/5):** KU3 \$ 194.00 (+4.30)
- **Arbitrage BMF/ICE:** UU -14.79 (+0.08)
- **Exchange rate:** 4.74 (+1%)

Colombia/Latin American Milds

- **Colombia:** After a whole working history at Almacafe (FNC's operator), Octavio Castilla left the organization. While the new GM is appointed, Mr. Diego Rojas will take such position on a temporary basis. Good sunny days are generally observed across the country. Internal market remains slow over the week in the south as producers are expecting higher prices to come in August with the end of the mitaca flow. COP continues stronger this week, lowering further the internal market prices. Demand still shy. H3996, C3910, L3941
- **Guatemala:** Some coffee changed hands during the week, mostly the ones that are still on intermediary's warehouses. The CoE electronic auction took place this week with good results for the participating coffees.
- **Honduras:** Demand for certified coffees is steady. Weather Sunny and humid through the country, no signs of rain.
- **Costa Rica:** The internal market remains stale, with farmers not showing any apparent interest to sell and no inquiries coming from the external market. Business has not been this low for this time of the year in recent time. experiencing its most potent rainy season in a century and the government raised its emergency alert level to its second highest (orange) due to the excessive rains. Infrastructures have been severely damaged; several main roads are interrupted due to landslides and lower temperatures all impede the harvest of coffee. Furthermore, the ICAFE has sent out warnings to closely monitor any appearance of leaf rust as the moisture / weather conditions show resemblance to the Costa Rican leaf rust crisis in 2012/2013
- **Peru:** The harvest 23/24 is in the peak season. Pasco, and Moyobamba: The harvest is being collected in low and high altitudes. Jaen and, San Ignacio in the high altitudes is being started the harvest, while low and middle altitudes are advanced.

Africa/Papua New Guinea

- **Kenya:** The impasse on licenses for coffee industry participants remains, and the industry is effectively at a standstill. Whilst the export of main crop coffee has not been hindered, the milling and sale of early crop coffees is not possible for now. In so far as can be determined from hearsay from government officers, there is a potential for the expired licenses to be extended whilst the matter of issuing new licenses that comply with the regulations are considered.
- **Tanzania:** Unchanged situation to last week with flow of parchment increasing to AMCOS as the harvest in almost all regions is at its peak.
- **Ethiopia:** Harvesting of the fly crop for the 23/24 season is underway in the Southwestern part of the country. Parts of Keffa, Bench Maji, Masha, etc. have started the early part of the harvest. While it's not easy to estimate the volume of parchment from the 22/23 crop still remaining unsold in the country, most observers agree that it's likely to be the highest volume we have seen in years. Overall, activity for conventional coffee remains low.
- **PNG:** Strong flow of coffee continues. Farmers are puzzled and unable to understand the lacking appetite of operators amid their main selling period. Internal prices move in line with the NY market. Interest for nearby shipments has slowed.

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Robusta

- Vietnam:** Current crop robusta supply is running on fumes. Upcountry prices are stuck at 69-70k VND/kg with no volume to mention. New crop prices are quoted at a 12-13,000 VND discount in a thinly traded market given the next harvest is still some distance away. Heavy rains continue to fall in the highlands, beneficial for crop development. Overall, its quiet. FOB prices are hardly quoted for current crop, although Gr2 indications are +400 to +470 USD/MT. Industry have started to cover new crop earlier than other years as forward prices look so much better and as a result diffs have already risen from +50 to +100 USD/MT. July exports are showing signs of significantly lower volumes as the supply issue starts to bite. VND 23,670 – Stable
- Indonesia:** Basis asalan this week traded around 45.500 IDR/kg to 46.000 IDR/kg, it is equal to RC U23 +485/+515 FOB in jute bag of EK1 80 defects. To get volume buyers have to pay up to 50 USD/MT more. Total arrival of asalan from Monday to Thursday was about 9.7k MT, increased by 15% from previous week. Offers Ek1 80 defects at RC U +570/+600 FOB jute bag for July and August. Currency: IDR traded Monday to Tuesday at Rp.15.034 – 15.062 per 1USD (Jisdor). Weather Robusta: Good weather in Lampung and South Sumatra helps with harvesting and drying, while the dry season persists in Java's main coffee areas.
- Uganda:** Harvesting for the western crop is mainly finished with expected 15%-20% of crop still to be sold locally. Some farmers and traders holding coffee in anticipation of higher prices amid bullish sentiment. Kampala is seeing increased local trade participation for graded coffee. Some exporters now less competitive but overall competition remains strong with efforts of short covering before the volume dries up. Exports: All export routes are running well to Mombasa after the disruption of last week's protests. Weather: Hot and dry weather has assisted drying at farmer level and internal transport of coffee.

Origin differentials for July/August onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-16	ICE Arabica	-16
Colombia Excelso	ICE Arabica	+22	ICE Arabica	+21
Honduras HG	ICE Arabica	+10	ICE Arabica	+15
Kenya AB FAQ	ICE Arabica	+45	ICE Arabica	+45
Vietnam Gr2	ICE Robusta	+460	ICE Robusta	+450
Indonesia Gr4 (max 80 defects)	ICE Robusta	+585	ICE Robusta	+550

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