



Coffee Market Overview

01 Sep 2023

“Unemployment Perks”

- U.S. job growth picked up in August by 187k jobs, but the unemployment rate jumped to 3.8% (from 3.5% in July) and wage gains moderated (0.2%, up 4.3% y-o-y), suggesting that labour market conditions were easing and raising expectations that the Fed will not raise interest rates in September.
- This initially weakened the US Dollar index, strengthening the BRL, however, investors now see this as the best of both worlds as the labour market softens just enough to keep the Fed at bay while it's strong enough to prevent an economic recession.
- Light rains across most of Brazil's arabica growing regions are forecast for next week. Due to the last 10 days of rainfall, good blossoms were reported across Cerrado and South of Minas. Good volumes of rainfall are required over the next few weeks to induce the main arabica flowering, weather forecasts will need to be closely monitored.
- The main coffee regions in Southern Sumatra and Java Island have experienced a prolonged period of dry weather. Reports indicate that the lower regions of Southern Sumatra and Java have experienced 1 to 3 rounds of blossom, all under relatively normal conditions. However, the persistent dryness has raised concerns about its impact on blossom and fruit sets for the 2024-25 harvest.
- ICE arabica certified stocks fell to a 9-1/2 month low of 485k bags. ICE robusta certified coffee inventories fell to a 10 year low of 3.37k lots.
- We estimate the current net speculator positioning in Arabica is -28k lots lots and in robusta +20k lots

Price Comparison

	<u>31.08.23</u>	<u>Change Vs.24.08.23</u>
ICE Arabica Dec 23 (c/lb)	154.50	0.20
ICE Robusta Nov 23 (\$/mt)	2,489	83
Arbitrage Arabica Dec 23 / Robusta Jan 24 (c/lb)	46.20	-1.83

ICE Arabica: Arabica traded higher off consolidation support around 150 and rallied to a two-week high. The best buyers were system funds covering short positions. Roasters were very deliberate, scale down buyers as slow consumer demand weighed on industry sentiment. Retailers expect finished product price decreases and promotional allowances will kick in soon which may be positive for consumption in the coming months. The chart is positive but needs to close above 160 to keep upward momentum going.

Support: 147.20, 143.00, 122.50

Resistance: 157.65, 166.65, 173.95

ICE Robusta: Robusta continues to rally off the recent low and is back in the middle of the range. The COT showed managed money longs liquidated more the 10k lots of length, which provided room for specs to reenter, on the long side. The Robusta balance sheet remains tight with firm diffs offered from most origins and drawing stock at destination. Firm structure, especially in the nearby Sept/Nov spread, provides support. The chart is positive.

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Support: 2385, 2336, 2248

Resistance: 2530, 2572, 2624

Brazil

- **Local Market:** with arabica futures trading within a tight range over the week, the local market remained very on the fence despite the weaker BRL. Coffee is still available although producers continue to seek higher price levels and await the flowering progress for the 24/25 crop. Overall, commercial business slowed over the week. Shipments continue to flow; August conilon green bean exports could end up a record at over 700k bags, while Arabica shipments reach over 2.6 mio bags, and are higher over the month, yet remain below expectations.
- **Weather:** Following the rains during the second half of August, the following few weeks is expected to bring good flowering.
- **Economy / Politics:** The BRL/USD traded from 4.85 to 4.94 as the USD index firmed.
- **Export Market:** Differentials remain trending higher with the firmer local market.
- **BMF (type 4/5):** KZ3 188
- **Arbitrage BMF/ICE:** ZZ -8.50
- **Exchange rate:** 4.94 (deval 1.25%)

Colombia/Latin American Milds

- **Colombia:** Businesswise it has been an uneventful week: We have seen cloudy days most of the week. However, the alert for El Niño remains in the country. A lot of political activity in the country these days, as in just 2 months we will have the regional elections: city majors, province governors, departmental assembly members and local counsellors. H4134 L4095 C4079
- **Guatemala:** A quiet week with little business reported. Frequent and heavy rains noted during the week, however still not the desired volume for the time of the year. Good interest has been noticed towards the end of the week for the last remaining coffees and certified coffees from this crop.
- **Honduras:** A relatively slow week, small amounts of coffees are being purchased every other day. Rains in the northern and central regions of the country noted.
- **Costa Rica:** Slowly but steadily demand is returning although volumes are small and carefully selected inquiries are now coming from different directions and qualities. To move bigger volumes for new crop, price ideas are too far away.
- **Peru:** The harvest is coming to an end and the flow internally seems to match current demand. Little change pricewise. Drought in the Panama Canal has forced authorities to limit the number of ships passing from 38 to 32 per day. This could become an issue for Peru shipments going forward. Good rains are required to feed the watershed system, if not received could cause a 2024 container flow crisis.

Africa/Papua New Guinea

- **Kenya:** The situation remains largely unchanged, with a significant bottleneck as mills, that have historically milled 80% of the crop, have had their licenses revoked due to their ownership structure being deemed to be non-compliant. The flow of coffee is at 5% of what is typical for this time of year.
- **Tanzania:** The harvest in most regions is now winding down slowly, with just the higher altitudes of Moshi, the harvest is only 50% advanced, mostly due to cold weather. Delivery of coffee to dry mills continues. This weeks' auction in Mbinga featured primarily FAQ and Grinder qualities. In the upcoming auction, we expect a decent size of offerings with 9k bags of new crop and 2k bags of old crop on offer.
- **Ethiopia:** The Coffee Authority has held its first stakeholder seminar on EUDR this week. While the work which awaits is significant, there are plans to commence field activities in December. Sales of washed coffee appear to be coming to a standstill, with some activity still focused on commercial naturals, which are currently trading well above the market, by historical standards.
- **PNG:** Similar situation to last week. Some reduction of flow of green and parchment in the upper

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highlands, whereas coastal regions see continuous arrivals of parchment. Many wet mills have now closed and dry mills continue to work through the stock at hand. Good demand from various regions.

Robusta

- **Vietnam:** Spot prices remain around 70,000 VND/kg upcountry with forward new crop trading in 57,000/58,500 VND/kg range this week although volumes remain thin with the crop still 2 months away. Gr.2 offered at +150 FOB in bulk for new crop with demand picking up for Nov/Dec shipment, while buyers look for better opportunities for forward shipments. Weather: rains have been good. Currency: 23,980 VND
- **Indonesia:** Basis asalan traded around 44,000 to 44,500 IDR/kg equivalent to X+365/+400 FOB basis 80 defects. Volume asalan Monday to Thursday was 4.5k mt. Offers around X+480/+500 FOB for 80 defects for Sep and Oct shipment. Indonesia's July Sumatra robusta green bean exports drop 10.3% y/y, totaling 15.1 k MT for the month, trade office data showed. Weather: dry weather in the main coffee regions in South Sumatra and Java. Currency: 15,294-15,237 IDR/USD

Origin differentials for October onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-14	ICE Arabica	-13
Colombia Excelso	ICE Arabica	+21	ICE Arabica	+21
Honduras HG	ICE Arabica	+12	ICE Arabica	+12
Kenya AB FAQ	ICE Arabica	+65	ICE Arabica	+65
Vietnam Gr2	ICE Robusta	+500	ICE Robusta	+500
Indonesia Gr4 (max 80 defects)	ICE Robusta	+500	ICE Robusta	+500

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