



Coffee Market Overview

03 February 2023

“Markets Perk Up”

- Global markets have cautiously moved towards risk on sentiment in the face of peaked inflation, soft landings of both European and US economies, and China reopening. S&P500 rallied to highest level since August.
- Federal reserve confirmed market expectations of a 25bps hike and the US Dollar index fell in response. The market is pricing in first rate cut to come in Q3 2023, but a hot labour market in US may throw that into question.
- ECB followed Fed's decision by increasing European rates by 50bps, and pledged similar rate hike in March.
- Honduran coffee exports rose 13% year-on-year in January, boosted by previously scheduled shipments. Average coffee prices during the season so far have dipped 10%, compared to the previous season, according to IHCAFE.
- ICE arabica certified stocks rose 2.1 k bags to 872.9 k bags. On the other hand, ICE robusta certified stocks decreased by 180 lots 6,039 lots.
- We estimate the net spec position in arabica to be 873k bags and robusta to 6039 lots.

Price Comparison

	<u>26.01.23</u>	<u>Change Vs. 13.01.23</u>
ICE Arabica Mar 23 (c/lb)	177.90	10.75
ICE Robusta Mar 23 (\$/mt)	2049	\$55
Arbitrage Arabica Mar 23 / Robusta Mar 23 (c/lb)	85.0	8.3

ICE Arabica: Arabica broke through the triple high resistance near 175, and rallied up to a 14 week high at 184.20. The buying was aggressive and led by spec shorts covering which triggered buy stops on the way up. The COT will be interesting to see how much short covering occurred, but the COT report will be delayed due to the ION Trading cyberattack that snarled global derivatives trading. Arabica's rally stimulated very good commercial business as exporters absorbed improved physical liquidity at slightly lower differentials. Fundamental drivers are supporting price action with diffs well above TP and increased buying interest for destination stock. The chart is bullish with important support at the 174.95 breakout level.

Support: 174.95, 168.10, 163.15

Resistance: 183.35, 193.10, 201.20

ICE Robusta: Robusta prices rallied above \$2100 for the first time since mid-October. The balance sheet for robusta will be very tight in the coming months, as robusta incorporation in finished products remains at high levels. Robusta may have rallied too far too fast, but gives Vietnam producers an opportunity to market the new crop production into the rally. The chart is positive, but extended.

Support: 1987, 1949, 1910

Resistance: 2112, 2150, 2173

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Brazil

- **Local Market:** The week enjoyed ongoing improved liquidity in Arabica at fresh recent high prices. Producers were able to benefit purchases at 1175, 1200, 1225 R\$, paid by short covering Arabica exporters. Replacement differentials were a couple of cents weaker into the higher NY. Premium of Arabica over Conilon keeps growing, 400, 450, 500 R\$.
- **Weather:** Rains are ongoing. Reservoirs are full.
- **Economy / Politics:** The BRL traded vs USD from 5.05 to 5.10 and firmed to 4.95 on Fed talk and carry trade, vs Copom Selic rate 13.75 % per year unchanged in yesterday's meeting.
- **Export Market:** Demand has subsided this past week with bits and pieces transacting.
- **BMF (type 4/5):** H3 \$ 236 (+12)
- **Arbitrage BMF/ICE:** HH 0.75 (unch)
- **Exchange rate:** 5.00 (+1.50%)

Colombia/Latin American Milds

- **Colombia:** Differentials softened a bit and business got more active, although no major volumes have been reported. The weather was good, only scattered rains to report, otherwise sunny. The COP: H4674 L4502 C4607
- **Guatemala:** Producers and intermediaries continued selling their coffee along with the market move higher, while the flow of coffee shows we are reaching the peak of the harvest, with good cups showing on our cupping tables and yields improving, especially against last year's yields. We estimate the harvest progress to have reached 55 – 60 % in throughout the country. Some mills in the lower producing regions are starting to close, as the flow is too low to continue operating. FOB business was fairly active.
- **Honduras:** Internal purchasing levels remain competitive even with the better volumes, but the external demand is quite slow currently. Producers are harvesting the higher parts of the fincas, but its getting more complicated to find enough pickers. It was sunny throughout the country.
- **Costa Rica:** With the higher market, demand diminished, but in contrast offers increased nicely. About 58 % of the crop has been sold as per Icafe numbers. Cold fronts brought more scattered rains, this time causing undesirable flowering in the Central and West Valleys. At this point there are now reports of three mayor coffee regions, communicating this same situation, which will probably hamper 2023/2024 volume potential.
- **Peru:** Some sporadic business for the next have been reported, but otherwise is typical offseason. Weather is favorable for the next crop.

Africa/Papua New Guinea

- **Tanzania:** The auction in Mbinga had 8k bags of mainly FAQ and Grinder qualities offered. It is expected that most of it will be sold soon as the farmers need liquidity. Sunny weather.
- **Uganda:** Cherry flow, volume, and quality is continuing to increase as the beginning of fly crop harvest slowly begins in the Rwenzori Mountains. Mt Elgon cherry flow continues at the higher altitude with the lower altitude harvest well finished. Parchment continues to be traded in fair volumes in Mbale city.
- **Ethiopia:** While the minimum price remains unchanged, the rally during the first half of the week opened some space for a buying opportunity, especially of commercial natural coffees, which saw their FOB diffs in double-digit minus territory for the first time this season.
- **PNG:** Coffee flow remains low in most provinces; small arrivals of the fly crop are reported in the upper highlands. Weather with heavy rains but no damage to the crop was reported.

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Robusta

- Vietnam:** Differentials came under pressure into LDNs rally especially for nearby shipments vs RCK. Exporters remain more conservative for forward shipments due to the carry cost where there is still good interest to cover. Logistics remain stable although blank sailings limit the shipment frequency. The export pace is running 15% higher year on year.
Weather: Unusually cooler this week. Mainly sunny and dry with the odd spot of rain.
Currency: Vnd 23,440 – stable.
- Indonesia:** Basis asalan traded around 31.200IDR/kg to 31.500IDR/kg. Total volume of asalan Monday to Thursday around 2kmt.
Weather: Currently, rainfall is reported to be good for cherry filling of the 2023-24 crop
Currency: IDR traded Monday to Thursday at Rp.14.979– 14.868 per 1USD (Jisdor)
- Uganda:** Kampala's FAQ flow continues at a slow and unsteady pace. Recent dry weather has assisted farmers in drying Kiboko up country however the daily flow to Kampala remains sporadic in volume consistency. High competition between exporters and local traders to cover shorts as soon as possible before the harvest is over.
Weather: Currently, rainfall is reported to be good for cherry filling of the 2023-24 crop
Currency: IDR traded Monday to Thursday at Rp.14.979– 14.868 per 1USD (Jisdor)

Origin differentials for February onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	+12	ICE Arabica	+15
Colombia Excelso	ICE Arabica	+54	ICE Arabica	+57
Honduras HG	ICE Arabica	+29	ICE Arabica	+31
Kenya AB FAQ	ICE Arabica	+60	ICE Arabica	+60
Vietnam Gr2	ICE Robusta	-40	ICE Robusta	-40
Indonesia Gr4 (max 80 defects)	ICE Robusta	+180	ICE Robusta	+180

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