



# Coffee Market Overview

03 Nov 2023

## “Certainly Volatile”

- The global macro started the week risk-off ahead of various key central bank meetings but ended more optimistic on the growing view that the interest rate hiking cycle is nearing an end with inflation stabilizing across countries.
- The USD dollar fell after the Fed left rates unchanged, while US 10-year treasury yields fell to 4.65%.
- Emerging market currencies, including the BRL strengthened, which reached 4.98 as the dollar weakened. As expected, COPOM cut the Selic interest rate by 50 bps to 12.25%, the third such cut in a row. Brazil's trade balance grew to US\$80bn in the first 10 months of the year.
- Coffee futures also had a volatile week influenced by the global macro drives of BRL, Dollar index and US treasury yields along with systematic spec moves all against a backdrop of dwindling arabica certified stocks.
- Brazil exported 4.16 mio bags of coffee in October according to Secex, up 25% m/m and up 40% y/y, a very strong performance with approximately 7% of the total, shipments that were rolled from September because of the ongoing container and equipment issues in Brazilian ports. Weather in Brazil remains wet and supportive for the 24/25 crop development.
- Uganda's total coffee shipments in the 2022/23 coffee year were 6.14 mio bags, 5% higher y/y, according to UCDA.
- Indonesia's Sept Sumatra robusta coffee bean exports drop 54% y/y to 12.6 k MT, compared to 16.17 k MT shipped in August 2023.
- ICE arabica certified stocks fall to May 1999 lows of 368k bags, while robusta certified stocks reach 3,995 lots.
- We estimate the net spec position in arabica to be flat and robusta to be net long +19k lots.

## Price Comparison

	<u>11.2.23</u>	<u>Change Vs. 10.26.23</u>
ICE Arabica Dec 23 (c/lb)	165.35	4.15
ICE Robusta Jan 24 (\$/mt)	2328	-92
Arbitrage Arabica Mar 24 / Robusta Jan 24 (c/lb)	62.06	-7.12

**ICE Arabica:** The December contract had a very choppy week swinging in 8 cent ranges from day to day. Drawing certified arabica stock supports both structure and flat price. Certs fell to 368,100 bags with zero bags pending and FOB differentials offered above tender parity. December options expire next Friday and large open CSO and option positions create high volatility as gamma is managed. The chart is positive but highly dangerous.

**Support:** 160.00, 153.65, 149.85

**Resistance:** 171.25, 177.75, 185.80

**ICE Robusta:** The January contract could not keep pace with arabica's rally falling \$92 during the week. Vietnam short sellers took advantage of the mid-October rally by offering good volume, but sellers stepped back this week as they covered positions. Vietnam's new crop liquidity will pick up in mid-November. Robusta stock at destination is tight and excellent demand for new crop shipments keeps FOB differentials well bid. The chart is neutral.

**Support:** 2300, 2223, 2171

**Resistance:** 2396, 2436, 2568

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## Brazil

- **Local Market:** a short week due to a national holiday on Thursday. This week's futures rally in arabica did not weaken the replacement differentials which remain firm as ongoing strong exporter short-covering continues combined with new fob demand.
- **Export Market:** Oct 23 shipments are usually strong for this time of the season, and according to Secex numbers Oct 23 reached 4.16 million bags shipped, part of which include the September delays. Cecafe numbers will be published next week.
- **Weather:** This week presented good rains across most regions and are forecast to continue into next week.
- **Economy / Politics:** Selic rate is down 0.50 to 12.25% and the October trade balance is +8.9 bln USD.
- **BMF (type 4/5):** Z23 19.10
- **Arbitrage BMF/ICE:** ZZ -17.50
- **Exchange rate:** The BRL/USD traded down from 5.05 to 4.99.

## Colombia/Latin American Milds

- **Colombia:** Larger volumes changed hands over the week but still low compared with previous years. Scattered rains at night are favorable for cherries ripening as well as bean filling for the 23/24 fly crop. On the politics side, the main loser in the past Sunday elections was the current government party. Majors and governors of main cities and states are back to center/right political parties. Currency: H4146 L4121 C4029
- **Guatemala:** Intermediaries opened their mills during the week, although weather conditions were not favorable due to the influence of tropical Storm Pilar. A good maturation process has been reported, with some regions pointing to an early start to the harvesting season by two weeks. The new crop quality looks promising. Harvesting in the mid-producing regions will start in the next few days and from there, an increase in volume picked by the end of November will be seen.
- **Honduras:** the 23/24 crop flow has not yet started; therefore, very small volumes have been purchased. Not much trading development seen during this week, but some interest from US roasters for all ranges of qualities and prices. A cold front in Honduras has affected main roads, with flooding. It is expected to rain heavily next week.
- **Costa Rica:** Good demand noted this week. Heavy rains and low temperatures have helped contain arrivals from the 23/24 harvest. The Central Bank reported its largest dollar reserves in over 7 years, which foretells further USD devaluation in the near term, but more stability in the midterm.
- **Peru:** Some demand for high-end specialty and conventional coffees noted over the week. This week has had rainy days which helps the blossom process for 24/25. Harvest is reported to be 95% complete across most regions.

## Africa/Papua New Guinea

- **Kenya:** Supply remains limited due to milling bottlenecks. Quality has been inconsistent with a significant drop on screen size. Pricing for better coffee has risen dramatically with differential for conventional qualities holding firm.
- **Tanzania:** This week's auction was held in Mbinga and offered 8,000 bags of freshly stored coffees, predominantly FAQ qualities. The auction results indicate that only 15% of the coffee was sold at the auction floor, while the rest received higher reserve prices. The next auction is scheduled for next week in Moshi.
- **Ethiopia:** Wet mill activity appears to be less robust than most years. This is mainly due to the shortage of working capital availability, which continues to affect the cherry buying capacity of akribis and exporters. With an off-cycle crop in most parts of the South and above-average rainfall patterns, the quality of the 23/24 crop looks promising.
- **PNG:** Farmers and processors continue to bring coffee to the market. Arrivals in the upper Highlands have now slowed while there is still some decent fop in some of the lower regions. The external demand has reduced and has brought a bit of reluctance from exporters to continue buying. As a result, differentials locally have weakened throughout the week.

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## Robusta

- **Vietnam:** Upcountry prices traded around 58,000-59,000 VND/kg this week on limited volume. The new crop coffee slowly trickling in as harvesting begins across more regions, quality is still low, as expected, with the characteristic greenish/smoky taste. Grade 2 offered around H+130/150 FOB in bulk. Demand is noted for nearby and forward shipments. Weather: good weather upcountry. Currency: 24,535 VND
- **Indonesia:** Basis asalan traded around 45,000 to 46,000 IDR/kg. The asalan volume between Monday to Thursday totaled a minimal 2.2k mt. Offers around F+600 FOB for 80 defects for Nov and Dec shipment. Weather: Moderate rains were reported in Lampung and South Sumatra regions. Currency: 15,916-15,861 IDR/USD.

## Origin differentials for November onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-13	ICE Arabica	-13
Colombia Excelso	ICE Arabica	+15	ICE Arabica	+15
Honduras HG	ICE Arabica	+9	ICE Arabica	+9
Kenya AB FAQ	ICE Arabica	+75	ICE Arabica	+75
Vietnam Gr2	ICE Robusta	+130	ICE Robusta	+130
Indonesia Gr4 (max 80 defects)	ICE Robusta	+600	ICE Robusta	+550

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