



Coffee Market Overview

4 August 2023

“US AAain’t”

- It was a choppy macro week, which saw the US dollar strengthen on strong US jobs data, Fitch’s US debt downgrade from AAA to AA+, firm treasuries and safe haven buying.
- Despite this, commodities continued with their strong revival into August, with more than \$350mn of commodity ETF inflows estimated for the month of July.
- Brazil’s central bank finally commenced its monetary easing cycle, reducing the Selic by 50 bps to 13.25%. This weakened the BRL more than 1.5%, erasing most of its gains since early July.
- Front month arabica hit a one-month peak on Wednesday, before easing back, while September robusta reached \$2,683/t.
- Soil moisture in Brazil remains at good levels and a few premature blossom were reported in Mogiana. No cold fronts forecast for the next two weeks, indicating that the frost risk is over for this season.
- Vietnam’s domestic prices and differentials continue to soar, reaching 70 VND/kg upcountry, amidst depleted inventories. Some regions in Central highlands noted flooding, but with no damage to coffee trees.
- The impact of El Nino in Indonesia is generally strongest during the dry season, which occurs in the months of July, August, September, and October. Monitoring the dryness impact during the blossom stage and fruit set of the 2023-24 crop is crucial. Low-land regions will be significantly affected as they enter the blossom stage earlier than other robusta growing areas across the country.
- Honduran coffee exports jumped by more nearly two-thirds in July, according to IHCAFE. By contrast, Costa Rican coffee exports fell 33% in July to 5-year lows.
- ICE arabica certified stocks stand at 527.9k bags, while robusta certified stocks have dwindled further down to 5.01k lots.
- We estimate the net speculator position in arabica to be currently 15k lots short and robusta +32k lots long.

Price Comparison

	<u>03.08.23</u>	<u>Change Vs. 27.07.23</u>
ICE Arabica Sep 23 (c/lb)	164.75	+3.3
ICE Robusta Sep 23 (\$/mt)	2645	-28
Arbitrage Arabica Sep 23 / Robusta Sep 23 (c/lb)	44.77	+4.57

ICE Arabica: A very quiet mid-summer week with minor gains noted. The COT has seen some predictable short liquidation by funds who have encountered decent roaster and arb type buying around and below the 160 c/lb mark. Prices weakening towards the end of the period as a surprise cut in the Selic rate caused a move lower in the BRL bringing origin hedging back towards the market.

Support: 159.50, 155.00, 144.50

Resistance: 165.50, 173.00, 181.20

ICE Robusta: A little retracement following the gains last week as arb buyers sporadically appear and the market continues to decipher the potential for fresh coffee against the U3 position. Fund rolling out of U3 appears to have started and spread weakness contributing to the slightly bearish overall sentiment.

Support: 2575, 2500, 2446

Resistance: 2670, 2800, 3040

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Brazil

- **Local Market:** Slow local market over the week, exporters are paying up to cover short commitments for nearby shipments. Local industry has ample choice between low grade arabica and conillon however business has been reported slightly more on the conillon front over the week for the September onwards period.
- **External Market:** Arabica shipments for July have been slower than expected for the month of July, while conillon shipments show strong exports reaching 475k bags of green bean. More arabica fob business reported over the week.
- **Weather:** We keep an eye on intermittent rainfall across the arabica growing regions, with the risk of inducing early scattered flowering without sufficient follow up rainfall, and further does not provide the needed dry weather stress required for plants to have a good blossoming when the rainy season begins in earnest in September. The outlook for the next two weeks is not indicative of any cold fronts or risk of frost.
- **Economy / Politics:** The USD traded between 4.80 and 4.88, COPOM reduced Selic rate by 0.5%
- **Export Market:** Strong demand continues.
- **BMF (type 4/5):** KU3 \$ 196.5 +5.5
- **Arbitrage BMF/ICE:** UU -16.25 (-0.25)
- **Exchange rate:** 4.88 (-1.00%)

Colombia/Latin American Milds

- **Colombia:** Farmers, once again, retaining part of their production at farm level, as well as middlemen, both waiting for "usual and historical better prices during August". Businesswise it was a rather quiet week. In general terms, good weather conditions in the coffee area, with isolated rains in Antioquia, Coffee Axis, Santander and Cundinamarca. H4060 L3870 C4043
- **Guatemala:** Like what we have seen in the previous weeks, there has been business opportunities for some lots which are still in the hands of producers and intermediaries. Samples have arrived at our cupping lab, with good cups still available. Currently producers are fertilizing and spraying fungicides for roya control. Good interest this week for current and new crop.
- **Honduras:** Heavy rains are being experienced in the western region of the country, but the south is going through droughts and high heat. Businesswise there is not much to report.
- **Costa Rica:** Local suppliers worried about clearing out their remaining stock from 22/23 crop, yet international market remains quiet. Some demand from Europe. The National Institute of Meteorology indicated that El Niño is consolidated and is expected to end till March 2024, contrary to what was previously forecast (Dec 2023).
- **Peru:** Prices became a bit more competitive and some more activity was noticed. In Pasco, and Moyobamba the harvest is being collected in low and high altitudes. In Jaen and San Ignacio the high altitudes started the harvest, while low and middle altitudes are advanced.

Africa/Papua New Guinea

- **Kenya:** Finally! Auction date has now been confirmed and it will take place on 15th Aug 2023. This came after a long period of uncertainty due to licensing issues. Brokers will be selling the coffee; it was initially the Marketers. The modalities on how this will be conducted are yet to be communicated. The current harvest is at its tail end. Weather has been cold.
- **Tanzania:** There was no auction this week. Farmers in the northern regions of Moshi and Arusha are concluding their harvest, while the south has passed its peak and the parchment collection at the dry mills is accelerating.
- **Ethiopia:** Concern about the sizeable volume of the carryout continues to occupy the attention of officials and coffee businesses in the country. The National Bank has started putting pressure on local banks to go after exporters who have diverted money to non-coffee activities. The credit landscape for coffee financing in the upcoming season is expected to be very different from previous years.
- **PNG:** Coffee continues to flow with little sign of a slowdown as we approach the end of the end of the peak selling period. Quality is good, while prices show weakening, fluctuating with exporter demand and futures movements. Cherry flow too remains busy in the upper highlands, these stay quite unchanged in local price levels. Some nearby demand was felt.

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Robusta

- Vietnam:** Upcountry price for spot is 70,000 VND and 12-13,000 VND, and lower for new crop. Domestic offers are very thin for spot as farmer stocks are negligible, and they don't need to sell new crop forward for cash advances as they diversify their income from multiple crops. Therefore, differentials trend firm as demand switches from U to X, and Nov forward deliveries are bid into a bit of a vacuum. Heavy rains have been widespread with flooding and landslides upcountry although coffee cherries continue to develop well. Industry interest for Nov / Jan shipments picking up much earlier than usual. Prices are also being sort for spreads, but still a bit early for most buyers to pay up, hoping for some crop pressure later.
Logistics remain good and shipping lines attempt freight increases on the current low levels. VND 23,750 – slightly weaker over the week.
- Indonesia:** Basis asalan this week traded around 44,000 to 44,500 IDR/kg, equal to Ek1 80 defects Nov +350 to +380 USD/MT FOB in jute bags. Arrival asalan Monday to Thursday around 5.7k MT. Overall offers are still high with offer from shippers are around 45,500 IDR/kg.
Weather: Normal to below normal weather has been reported in the southern region of Sumatra. Current weather conditions are favorable for the drying process. The harvest is almost over in the highlands, while peaking in Java, the main coffee growing region. Dry weather conditions favor the budwood and blossom stages for the next crop.
- Uganda:** The harvesting period of the western crop is mostly over with around 10% of the crop still to appear in the market. Local traders and exporters are buying up volume whilst larger exporters seem to have pulled back a bit on the price. Competition for remaining volumes remains high with more graded coffee being sold locally from local traders. Exports: All export routes are running well with some difficulty to secure containers from certain shipping lines. Weather: Heavy rains appeared this week across the country as should be expected for this time of year.

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

	This week		Last week	
Brazil MTGB	ICE Arabica	-15	ICE Arabica	-16
Colombia Excelso	ICE Arabica	+21	ICE Arabica	+22
Honduras HG	ICE Arabica	+14	ICE Arabica	+10
Kenya AB FAQ	ICE Arabica	+45	ICE Arabica	+45
Vietnam Gr2	ICE Robusta	+500	ICE Robusta	+460
Indonesia Gr4 (max 80 defects)	ICE Robusta	+485	ICE Robusta	+585

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