

Coffee Market Overview

04 November 2022

“Lula’s Back in Town”

- The blustering macro continues to dominate all financial markets, led once again by the Dollar index which rallied 2% over the week after the Federal Reserve’s rate hike of 75bps and their warning not to underestimate how high rates will likely go.
- In Brazil, former president Lula da Silva won his second term in charge, pipping Bolsonaro. The market has reacted positively since, with BRL appreciating 4.3% over the week.
- Higher rates for longer only solidify the view of the incoming recession, causing the S&P500 to drop 4.6% from last week and Brent oil to slip 2.3% as of yesterday’s close. However, rumours of China re-evaluating zero Covid policy have brought back some risk appetite to investors. Most commodities are up as a result, with BCOM climbing 2.3% at the time of writing.
- Arabica prices have dropped 3.7% to 172.2 c/lb this week, continuing its impressive decline. From last month’s high of 219.3 c/lb, the funds have decreased their net position by 27k lots, to the first net-short position since July 2020.
- Rain fell in good quantities in Brazil but an unseasonal cold snap took temperatures to single digits, but not low enough to cause too much concern.
- October shipments from Honduras slumped to 55,892 bags from 104,776 bags a year earlier, according to preliminary data from the Honduran Coffee Institute. Similarly, the Costa Rica data showed shipments fell to 9,591 bags from 12,309 bags a year earlier.
- ICE arabica certified stocks fell by just 2.8 k bags to 382.7 k bags but pending gradings have increased by 106k to 162.3 k bags. On the other hand, ICE Robusta certified stocks increased by 296 lots to 9,165 lots.
- We estimate the net spec position in arabica to have decreased further to -14k lots and Robusta to -15k lots.

Price Comparison

	<u>04.11.22</u>	<u>Change Vs. 27.10.22</u>
ICE Arabica Dec 22 (c/lb)	168.35	-10.50
ICE Robusta Jan 23 (\$/mt)	1878	-166
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	93.66	-4.67

ICE Arabica: Another brutal coffee sell-off, although the selling finally ran into thicker support near 170. The macro remains the price driver as markets became more convinced that the Fed will raise rates higher and hold higher rates longer than expected going into the week. Higher US rates are bullish the USD, and the dollar index is sitting just off of recent highs. Higher rates drive a repricing of risk assets and create headwinds to KC. The chart is negative, oversold and continues to look for a hero to generate a correction.

Support: 167.75, 164.65, 147.65 **Resistance:** 183.00, 192.35, 200.00

ICE Robusta: Robusta prices traded down to new lows during the week, as long traders threw in the towel and systems sellers piled on. Roasters used the selloff to accumulate futures and now hope to catch the new crop liquidity from Vietnam, to convert into physical cover. Robusta does not trade in isolation from arabica and the negative price action is very similar to arabica. The chart is negative and oversold.

Support: 1814, 1800, 1712 **Resistance:** 1937, 2013, 2074

Brazil

- **Local Market:** With the macro environment driving KC prices lower, Arabica producers sell less and less. Internal diffs have firmed significantly on the back of the lower market and firming BRL. Export statistics for October highlighting strong Arabica shipments. Conilon continues to be the flavour of the day for the local industry.
- **Weather:** Focus surrounds a cold front moving through production areas – not threatening an event but unusually cold temps for this time of year and uncertainty in how trees will react to such temps at this time of year.
- **Economy / Politics:** Following the election result, the BRL opened at 5.41 before firming through the course of the week. Some roads blocks were established but a brief statement from Bolsonaro seems to have cooled emotions.
- **Export Market:** Buyers are there but industry/exporter price ideas are far apart. Trade needs to sell well below replacement to find an active taker.

- **BMF (type 4/5): Z2 \$ 205 (-8)**
- **Arbitrage BMF/ICE: Z/Z -17 (+2)**
- **Exchange rate: Official: 5.15 (+3% w-o-w)**

Colombia/Latin American Milds

- **Colombia:** Heavy rain caused the government to decree a 'national disaster situation'. COP price reached historic low, breaking the psychological barrier of 5000 COP/USD, hence, the differential continues easing slowly. COP: H5105 L4829 C5069.
- **Guatemala:** During the week, great weather has been reported all over the coffee-producing regions, which is normal for the time of the year, with lower temperatures, and dry conditions. It is forecasted that the effects of Hurricane Lisa will be noted by the weekend.
- **Honduras:** The coffee picking of the lower part of the crop continues as volume is expected to pick up in the second half of November, rain is expected to come due to Hurricane Lisa.
- **Costa Rica:** Producers still holding off from selling their coffee and the lower demand continues. A 100-Year higher rainy season caused damage to infrastructure and several main roads making it harder to harvest the coffee.
- **Peru:** The coffee harvest is almost finished, and the flowers are starting to bloom looking forward to the 2023 crop. The weather was mainly sunny across all the regions.

Africa/Papua New Guinea

- **Kenya:** Prices are dropping in line with the quality, and volumes are also little. The harvest of the main crop has started slowly across. Finally, some rain. However, more is needed for the final phase of the main crop ripening.
- **Tanzania:** 6th auction of the season was held in Mbozi, Songwe. A total of 17,689 bags were on offer, mainly from Mbinga. Most of the coffee was FAQ quality as we start seeing North coffee to flow. The story remains the same, eager buyers and high reserve prices. Less than 10% of the auction was confirmed on the floor. We expect the non-confirmed lots to be re-offered at the next auctions which will be held in Mbinga.
- **Uganda:** The flow of cherry remains strong in Mt Elgon as we reach the peak month of the harvest. Prices in both, Mt Elgon and the Rwenzoris, have come off slightly, following the drop in NY.
- **Ethiopia:** With the harvest season underway, red cherry prices are showing signs of coming down to less inflated levels in recent days. Whereas Kaffa, Bench Maji, and parts of Illubabor are seeing cherry prices coming down, the prices remain elevated in the South and parts of Djimma. Offers remain on the high side and differentially unattractive to the international market. New crop samples are expected in Addis next month, as the heavy rains in the regions are no longer a daily occurrence, and drying parchment is getting easier. Shortage of labor in coffee harvesting areas is being widely reported. This is due to the overall security situation in the country, making it difficult for people to move easily across the regions.
- **PNG:** Coffee flow in line with the off-season. Some decent volume is now coming to the market which has been held back and is now being sold in a hurry into the weakening terminal market. Differentials are firming.

Disclaimer

Any comments or opinions in this report are not intended to be an offer to buy or sell commodities or futures and options thereon as they merely state our views and carry no guarantee as to their accuracy.



Robusta

- Vietnam:** FAQ is trading around 41,500/42,000 VND/kg upcountry. Selling pressure increased as the arrival of the new crop picked up. Grade 2 is trading around -100 FOB in bulk. Industry demand continues for forward positions. Weather: mainly dry and sunny with some scattered showers.
 Currency: 24,851 VND
- Indonesia:** Basis asalan traded around 32,000/32,300 IDR/kg equivalent to F-80/-60 basis 80 defects. Volume asalan Monday to Thursday was 5.2k mt. Offers for shipment Oct to Dec between -10/-20. Weather: normal rain in the main Robusta area in West Lampung while normal to above normal rains in South Sumatra. Currency: 15,119-15,247 IDR/USD

Origin differentials for December onwards shipment cts/lb FOB

	This week		Last week	
Brazil SW	ICE Arabica	+4	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+55	ICE Arabica	+58
Honduras HG	ICE Arabica	+31	ICE Arabica	+32
Kenya AB FAQ	ICE Arabica	+62	ICE Arabica	+62
Vietnam Gr2	ICE Robusta	-100	ICE Robusta	-100
Indonesia Gr4 (max 80 defects)	ICE Robusta	+140	ICE Robusta	+140

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