



Coffee Market Overview

28 April 2023

“Coffee: Break Time”

- It was a week of consolidation – both for macro and coffee markets alike.
- Outside markets turned cautious amidst conflicting economic data, some hawkish Fed speakers, and mixed company earnings results.
- In coffee, Arabica futures corrected lower, while Robusta prices stabilized somewhat from its strong rally.
- Although both markets remain inverted, momentum is easing. Fundamentals remain very tight for Robusta though.
- The latest COT shows the industry to be poorly covered with futures, with gross commercials longs in arabica at their smallest long position since 2016 on resisted buying; eventually needing to take on some paper cover.
- Brazil received scattered rains this week. Next week light rains are forecast again, followed by a cold front, although no concerns for frost damage.
- Vietnamese farm gate coffee remained firm at 52.5k VND/kg during the week, but volumes remain small. Around 90% of the 22/23 crop has been delivered by farmers so far, well ahead of previous years.
- Indonesia enjoyed good weather in southern Sumatra and Java coffee regions this week, favorable for harvesting. Local trading and the arrival of coffee will resume in greater volume next Tuesday after Eid celebrations end.
- Colombia’s peso weakened amidst political issues. Mr Bahamon, a German businessman from Huila province, was announced as new head of FNC.
- ICE certified arabica stocks fell over the week to 687.6k bags, Robusta certified stocks have risen to 7.8k lots.
- We estimate the net spec positioning in Arabica is currently +17k lots, and that in Robusta is at +37k lots.

Price Comparison

	<u>04.27.23</u>	<u>Change Vs. 04.20.23</u>
ICE Arabica July 23 (c/lb)	188.20	-5.70
ICE Robusta July 23 (\$/mt)	2405	\$31
Arbitrage Arabica Jul 23 / Robusta Jul 23 (c/lb)	79.11	-4.30

ICE Arabica: Arabica retreated from the six month highs that were made last week. Origin differentials are far above tender parity and structure remains inverted, but with FND past, the buying pressure was off and sellers took the opportunity to move price lower. Industry buyers are focused on managing nearby physical and paper coverage, and many roasters have implemented “one day at a time” buying strategies. The chart is negative.

Support: 181.25, 173.95, 166.55

Resistance: 193.25, 197.70, 204.90

ICE Robusta: Robusta exploded to the highest level since 2011. The tight balance sheet was the main driver behind the rally, and robusta remains a very dangerous market in 2023. Vietnam producers are well sold and there will be strong demand from both international and domestic buyers for the Indonesian and Brazilian new crop robusta. The long term chart is positive, but extended in the short term, and in need of a correction with price near a decade high.

Support: 2377, 2311, 2201

Resistance: 2447, 2489, 2672

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Brazil

- **Local Market:** With some physical liquidity shifting from producer to exporter hands in the last couple of weeks, producers refrained from chasing the market lower as KC broke below the 190 in N3. Fob offers could still be found as exporters look to rotate positions and move coffee that was purchased last week. On the forward, very mixed signals regarding producer selling behaviour as the uncertainty of the cold weather period looms. Arabica shipments in April continue to lag well behind March numbers. Conilon is a calmer picture with limited action on the nearby.
- **Weather:** A wet April continues with some expecting record monthly rainfall for this time of year.
- **Economy / Politics:** BRL volatility continues with a 2% range this week.
- **Export Market:** Small interests are found for current crop, some for immediate shipment. Differentials transacting at similar levels to last week. New crop conversations continue with some business being concluded as the harvest draws nearer.
- **BMF (type 4/5):** K3 \$ 231.50 (-13.5)
- **Arbitrage BMF/ICE:** NN KK -11.64
- **Exchange rate:** 4.97 (+2%)

Colombia/Latin American Milds

- **Colombia:** German Bahamon, a businessman from Huila province, was finally announced as FNCs new CEO, despite request of the Colombian President to postpone the final election. Furthermore, President Petro asked for protocol resignation to all the ministers, of which 7 resignations have been confirmed causing a volatile Peso. Coffee wise business has been lack luster with differentials remaining stable. H4673 L4440 C4656
- **Guatemala:** The internal market has been slow lately, with reduced amounts of coffee available. Most producers and intermediaries have already delivered their coffee to exporters warehouses while expecting better market conditions in order to sell. Producers have basically finished their preparation for the start of the rainy season. Good FOB demand was reported over the week.
- **Honduras:** the 22/23 crop is ending, and the remaining coffees are looking for a home, about half of lower qualities. Sporadic businesses have been reported, but overall business is slow. Honduras is going through a heat wave which according to the government will last until May 5.
- **Costa Rica:** Differentials have softened and good volumes changed hands. About 80% of the crop have been sold. Weather is very hot, logistically everything runs smoothly.
- **Peru:** Some more activity has been reported on the better grades and organic coffees. The harvest is progressing normally and we are soon entering in the peak of it in the lower altitudes.

Africa/Papua New Guinea

- **Kenya:** There are only two more auctions left this main crop and quality is representative for the final dregs of the season. The auction will then enter into a two month recess until the start of the early crop. Rain continues across the coffee growing regions.
- **Tanzania:** No auction this week and the next one is expected to take place next week in Moshi. Some producer still need to finalize the last sales before the season's auctions end. Some farmers in the lower lands in the North and in Mbozi have started picking. The harvest is still in very early stage and we anticipate its peak in June. The crop development in the Highlands is proceeding nicely.
- **Uganda:** The Mt Elgon fly crop has started to harvest at low altitude areas. Heavy rains this week across the region which are good for the trees which will be harvesting in the main crop later this year. In the Rwenzori region the current harvest is nearing its end and we see cherry deliveries reducing week on week.
- **Ethiopia:** As washed coffee sales remain tepid, upcountry akrabis with large stocks of parchment are starting to feel the pressure. Demand remains weak as Ethiopian washed differentials remain high above other origins' price levels. The flow of commercial naturals to Addis from the West and Southwest remains lower than is generally expected during this part of the year. A devaluation of the currency remains unlikely in the short term, as Ethiopia continues negotiations with the World Bank and IMF on next steps to create macroeconomic stability.
- **PNG:** It's getting busy in the upper Highlands and cherry and parchment sourcing is becoming highly competitive. New players are setting firm prices which has increased the differentials locally for all grades.

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Robusta

- Vietnam:** Upcountry prices are bid between 52800 and 53800 vnd/kg this week by shippers but there are few sellers as the crop is almost over earlier than usual due to the record VND price levels paid to farmers. There are still some stocks in strong farmers hands which will come out slowly when they require cash. Weather is mainly hot and dry with some scattered showers in the highlands. G2 is trading -20 to -60 fob bulk depending on shipment timing and availability of coffee. Industry came back to the market this week after a short hiatus and booked some business for both nearby and spreads out to the end of the crop. Differentials are starting to firm again as Robusta futures give up some gains and spreads weaken.
- Indonesia:** In Bandar Lampung coffee activities started on Wednesday after a one-week holiday, several warehouses were still closed. Meanwhile, in up country, activities are not yet normal. Farmers are continuing Eid al-Fitr celebrations and loading and unloading workers are still extending their stay in their hometowns.

Origin differentials for April onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-5	ICE Arabica	-5
Colombia Excelso	ICE Arabica	+44	ICE Arabica	+44
Honduras HG	ICE Arabica	+19	ICE Arabica	+20
Kenya AB FAQ	ICE Arabica	+45	ICE Arabica	+40
Vietnam Gr2	ICE Robusta	-30	ICE Robusta	-50
Indonesia Gr4 (max 80 defects)	ICE Robusta	+60	ICE Robusta	+100

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