



Coffee Market Overview

5 May 2023

“Robusta Takes the Crown”

- The week was dominated by turmoil in US regional bank stocks, a looming US debt ceiling and speculation that the Federal Reserve might start lowering interest rates in response to tighter credit conditions.
- This week’s 25 basis point interest rate hike by both the Fed and the ECB was widely anticipated, but today’s stronger than expected data on the US job market is confusing the picture whether the Fed will pause now and start cutting rates soon.
- Arabica futures fell to 3-week lows to 181c/lb before recovering. Robusta continued to storm ahead on the back of stronger momentum and tightening fundamentals.
- In Brazil cooler temperatures are forecast for SDM, Mogiana and Cerrado for 14 May. Minimum temperatures could fall to 7 degrees C, although no risk of frost seen unless temperatures drop further.
- Colombia produced 566k bags of coffee in April, down 25% y/y, according to FNC. The decline was due to heavy rains caused by La Nina, as well as high prices for fertilizers. Exports in April fell 15% to 719k bags y/y.
- Weather in Vietnam is getting dry, with Dak Lak, Dak Nong and Gia Lai Provinces receiving below average rains versus the previous years across the month of April. This needs to be monitored.
- In Indonesia South Sumatran farmers have initiated their harvesting operations following the conclusion of Eid al-Fitr holidays. However, in Western Lampung farmers have not yet returned from their hometowns in Java.
- ICE certified arabica stocks fell 20k bags over the week to 660k bags, Robusta certs rose to 7.8k tonnes.
- We estimate the net speculator position in Arabica is +19k lots, and that in Robusta is at +40k lots.

Price Comparison

	<u>05.05.23</u>	<u>Change Vs. 04.27.23</u>
ICE Arabica July 23 (c/lb)	182.95	-5.25
ICE Robusta July 23 (\$/mt)	2412	\$7
Arbitrage Arabica Jul 23 / Robusta Jul 23 (c/lb)	73.54	-5.57

ICE Arabica: Arabica continued to retreat from the April high at \$204.90. Higher prices provided sell side liquidity and weaker differentials, which the market is digesting. It’s important to note that falling prices can firm internal Brazil differentials just as quick, as producers back away from offering. The COT shows that commercial traders have reduced gross positions with industry running down price cover and origin waiting for higher prices. The chart is negative and testing support at 182.85.

Support: 182.85, 174.85, 165.55

Resistance: 190.20, 195.85, 204.90

ICE Robusta: Robusta continues to probe the highest level since 2011. The tight balance sheet is the main driver behind the rally, and robusta will remain a very dangerous market for the balance of 2023. Demand remains strong as robusta has taken a higher percent of incorporation in blend formulations. Vietnam producers are well sold, and many buyers are already focused the new crop availability from Indonesian and Brazil. The long-term chart is positive.

Support: 2377, 2311, 2201

Resistance: 2489, 2440, 2672

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Brazil

- **Local Market:** With Arabica futures continuing its downward move from the previous week, producers are in two minds whether to continue following the bid lower or to stick to the plan that has worked so well for them in the recent months. The speed of selling declined as the market fell, but prices are still good when put against cost of production and the new crop flow looms ever nearer. Internal differentials firmed slightly with the lower futures and the gap between buyers and selling ideas widened nearer the market lows. Local industry has been actively buying conilon this week, the price incentive versus arabica remains favourable.
- **Weather:** The arrival of May brings us closer to the frost period, the rains have lessened, however cooler temperatures for the middle of the month across SDM and Cerrado need to be monitored. Current dry weather prevailing improves conditions for harvesting.
- **Economy / Politics:** The narrow range of the BRL/USD witnessed over the past weeks continues (4.98 to 5.05). The Selic rate remained unchanged at this week's Central Bank meeting.
- **Export Market:** The risk appetite of exporters reduced this week as a lower market and slightly higher internal differentials pulled the offer back. Some coffee traded into the export market as industry look to take on some cover, but there is still a lot to do.
- **BMF (type 4/5):** KU3 \$ 220
- **Arbitrage BMF/ICE:** UU -14.25
- **Exchange rate:** 5.01 (-0.6%)

Colombia/Latin American Milds

- **Colombia:** The mitaca crop is starting to flow and business is picking up at prices unchanged versus the previous week. Weather conditions have improved, and rainfall is closer to historical norms, suitable for harvesting activities. H4733 L4599 C4634
- **Guatemala:** According to the Anacafe monitoring system, during April, the incidence of Roya in the country reached 8.8 % which is 2.93 % higher than April 2022 while comparing with March 2023, there was a reduction of 3.49%. Currently we are below the historical average and therefore no major concerns reported. Continuous business has been reported, mainly for the higher quality coffees.
- **Honduras:** Coffee flow is slow currently as producers have sold most of their coffees with very little left to pick. Coops and intermediaries are still holding some stocks, which look for a home. Rains in several regions were most welcomed after the heatwave of last week.
- **Costa Rica:** Some sporadic demand was filled but it was overall a quiet week. About 20% of the crop remains unsold, and uncertainty remains which level the differentials will reach. Logistics are running smoothly.
- **Peru:** In regions such as Moyobamba, San Ignacio, Junin, Pasco, and Jaen, the rains have been decreasing. The coffee flow is still very low as the harvest is yet to build, but more commercial interest has been noted.

Africa/Papua New Guinea

- **Kenya:** The penultimate auction of the main crop season this week saw values firming considerably, possibly signaling the end of the downward trend in pricing. The last auction will be held next week with a reasonable offering of 14,000 bags of mixed qualities. The weather has been wet and instances of CBD have been noted.
- **Tanzania:** This week's auction in Moshi offered 21k bags, whereof 16k bags were unsold coffees from previous auctions. The quality generally is now downgraded to Grinders. Farmers in the lower lands in both, North and South, continue to harvest the new crop cherries, whereas the crop development in the Highlands is still underway.
- **Uganda:** The Mt Elgon fly crop is in swing, small volumes of cherry and parchment entering the market. Heavy rains across the Mt Elgon area have hampered drying efforts and increased difficulty of cherry delivery. In the Rwenzori region cherry volumes have continued to decrease as the season ends.
- **Ethiopia:** March export figures totaled at 327k bags, the lowest in 5 years, and we expect at least a third of that volume to be past crop coffees from the 21/22 season. Offers of clean commercial natural coffees at attractive levels are very limited. Generally, quality of conventional natural coffees cup below expectations so far. Government openly announced that there is no plan for currency devaluation in the near term.
- **PNG:** Coffee flow improved over the week, as we move to the peak of the main harvest in the Western Highland Province. Internal differentials firmed as local prices in relation to the drop lower in futures. Demand is sluggish.

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Robusta

- Vietnam:** Upcountry prices trade in a 53,800 to 54,500 VND/kg range in very low volume as there are few offers from well sold producers. Consequently, differentials jump higher and outright prices in VND continue to trade at multiyear record highs at the farmgate level. Grade 2 is indicated at -20 FOB in bulk for nearby shipment, however exporters start to pull offers as they struggle to source coffee internally. Industry continues to show good appetite at firmer differentials. Weather; mainly hot and dry with some scattered showers in a few areas.
Currency: 23,440 VND.
- Indonesia:** Basis asalan traded around 35,400 to 35,700 IDR/kg basis 80 defects. Volume asalan Monday to Thursday was 6.3k mt. Offers around +60 FOB for 80 defects for May to July shipment. Weather: Normal rains in Lampung, South Sumatra and Java. Currency: 14,703-14,632 IDR/USD
- Uganda:** Western crop has been slower to materialize and is expected to start producing volume of FAQ around mid-May. Weather; Heavy rains continue to batter the country this last week.

Origin differentials for May onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-5	ICE Arabica	-5
Colombia Excelso	ICE Arabica	+43	ICE Arabica	+44
Honduras HG	ICE Arabica	+18	ICE Arabica	+19
Kenya AB FAQ	ICE Arabica	+45	ICE Arabica	+45
Vietnam Gr2	ICE Robusta	-20	ICE Robusta	-30
Indonesia Gr4 (max 80 defects)	ICE Robusta	+60	ICE Robusta	+60

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