



Coffee Market Overview

06 Oct 2023

“Bond is back”

- Markets were beset by plunging bond prices, as US govt treasury yields, alongside those in Germany and elsewhere, soared to highs not seen since 2007.
- The dollar index has rallied 7% over the last three months, boosted the higher US govt bond yields, as jobs growth has stayed strong, and the Fed looks set to keep interest rates high for longer.
- The stronger dollar kept commodities, stocks, EM currencies, and most risk assets under pressure. Even crude oil, which had been on a tear, plunged this week, unable to maintain its solid outperformance in the face of global uncertainty.
- The BRL has given back a lot of this year's gains, reaching a low of 5.20. This would have encouraged more Brazilian producer selling, had terminal prices not fallen faster.
- Brazil saw decent rains across all regions, with pin heads expanding and triggering another blossom round. Forecasts for rains to continue next week.
- Indonesian robusta exports from Lampung in the season to date (April/Sept 2023) totalled 118,968 MT, a 27% year-on-year fall.
- Honduran coffee exporters shipped 5.34 mio bags in the just-concluded 2022/2023 harvest, according to IHCAFE, below the 5.5 mio bags previously estimated. IHCAFE expects 2023/2024 exports will likely fall again, as the crop suffers from higher costs for key inputs.
- ICE arabica certified stocks stand at 442,222, while robusta certs are at 4,222 lots.
- We estimate the net spec position in NY arabica to be -24k lots and Lon robusta to be 19k lots.

Price Comparison

	<u>05.10.23</u>	<u>Change Vs.29.09.23</u>
ICE Arabica Dec 23 (c/lb)	145.40	-1.80
ICE Robusta Jan 24 (\$/mt)	2302	-70
Arbitrage Arabica Dec 23 / Robusta Jan 24 (c/lb)	40.98	2.37

ICE Arabica: Arabica attempted to rally on Monday, but momentum failed miserably above 150.00. The buying appeared to be from index-type funds rebalancing positions for the start of the 4th quarter. The up move was surprising given the USD strength and the risk-off mood of the macro, but the buying lasted only one day, and downward momentum took over for the balance of the week. The chart is negative with the January low at 143.00, the next support.

Support: 143.00, 140.00, 135.60

Resistance: 151.40, 156.85, 164.50

ICE Robusta: Robusta showed cracks and an inability to maintain momentum. The X/F spread weakened sharply on heavy system fund rolling, which weighed on the forward structure and pressured flat price. Robusta stock at destination is tight but new crop liquidity from Vietnam will begin to flow in November. The chart is negative.

Support: 2283, 2161, 2023

Resistance: 2351, 2464, 2528

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Brazil

- **Local Market:** Despite the rallies, Brazilian arabica farmers remain unwilling to sell. Even with currency assistance, no considerable sales happened this week and outright levels continue to fall and small profit margin versus production disappears more and more. The local industry has been very silent, whilst running aggressive price campaigns in supermarkets. Shipment interruption was caused by deficient logistics and the rule of 'whoever pays a better price gets the shipping space' rule has been applied to the business. Conilon trades in bigger sizes for exports.
- **Weather:** Good conditions and decent rains for all regions.
- **Economy / Politics:** The USD traded from 5.02 to 5.20. Brazilian interest rates rallied too, but US bond yield is prominent in the scenario.
- **Export Market:** Only fill-ins were reported, in both conilon and arabica.
- **BMF (type 4/5):** Z23 179 (unchanged)
- **Arbitrage BMF/ICE:** ZZ -10 (+2.00)
- **Exchange rate:** 5.17 (deval 2%)

Colombia/Latin American Milds

- **Colombia:** With COP weakening this week, and the crop pressure, the internal market started moving, and differentials went down despite the lower NY market. Shy demand starts to show again as the crop starts in the north of the country. H4401 L4100 C4100
- **Guatemala:** The fruit development is improving due to current weather conditions, although a bit delayed when compared to last year. Roya incidences are lower than last year. Some new crop businesses have been reported, but overall interest is a bit slow. Exports to Puerto Quetzal are difficult, as the contract with the terminal operator has been terminated.
- **Honduras:** FOB business is getting more active, where the internal activities are just about to start. Price ideas are still too far apart to trigger sizable business. Weather conditions are good.
- **Costa Rica:** Commercial activity returned to absolute silence again. While the country still struggles to sell around 15% pending from 22-23 crop, new crop cherry keeps on arriving to wet mills. FOB market was quiet too.
- **Peru:** Availability of conventional coffees remains weak and so do the prices, whereas certain certified coffees remain stubbornly firm and scarce. Weather overall remains hot and sunny.

Africa/Papua New Guinea

- **Kenya:** Very little has changed in Kenya, the main crop harvesting has started but there remains a back log of unmilled unsold parchment coffee from the early crop across the country. The government remains steadfast in its coffee industry reform agenda, and many private dry mills in the country remain shuttered.
- **Tanzania:** This week, an auction took place in Mbeya, showcasing 24,000 bags of coffee stored in different warehouses. Among them, only 100 bags were from the old crop. The auction saw remarkable success, with almost all the bags receiving bids. Anticipating continued success, the next auction is scheduled for next week in Mbinga, expected to build upon the achievements of the Mbeya auction. Due to a public holiday yesterday, the auction will be held today, with 6,000 bags in total on offer containing primarily FAQ qualities. Most regions are now done with harvesting, except the higher latitudes of Moshi and Mbinga in the South, who will end their season a bit later. Some rains have been reported in the North that will support the ripening of the higher altitude coffees which are not harvested as of now.
- **Ethiopia:** As the 2023/24 harvest season approaches, our crop survey indicates a predominantly off-crop cycle in the South, with the Southwest having an on-crop cycle. Many exporters are indicating that securing credit from local banks to finance coffee purchases will be very challenging this year. The banks are under close scrutiny by Ethiopia's central bank, which has put strict limits on credit expansion to bring inflation under control.
- **PNG:** A quieter feel in all the highland markets with arrivals now slowing down. Cherry picking is now minimal in the upper highlands and most wet mills have ceased operations for this season. Prices are unchanged throughout the week. New crop fruit development is in order. Both, nearby and further out, demand remains strong.

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Robusta

- **Vietnam:** Internal market was quieter this week after London's drop. Early picking has started but quality is still very low. The price for FAQ's new crop is around 58k VND but farmers are holding off because they can sell cherry at 11k VND to buyers that still need coffee in October. The crop is generally developing well but will not be as early as expected as the weather remains cloudy/rainy upcountry. New crop is offered from December onwards. Demand is healthy in general and business is taking place.
- **Indonesia:** Basis asalan this week traded around 42.500 IDR/kg, equivalent to RC X +290 to +320 FOB basis 80 defects. Trading houses are actively offering Vietnam coffee to Indo rosters and local traders. Southern Sumatra and Java's main coffee regions have experienced dry weather, with high temperatures, including a peak of 40 degrees Celsius in Semarang, Central Java. The average temperature this decadal ranged from 35 to 37 degrees Celsius. We will closely monitor the impact on the fruit set stage. Currency:15.159-15.601 IDR/USD.

Origin differentials for September onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-9	ICE Arabica	-10
Colombia Excelso	ICE Arabica	+23	ICE Arabica	+25
Honduras HG	ICE Arabica	+11	ICE Arabica	+12
Kenya AB FAQ	ICE Arabica	+75	ICE Arabica	+75
Vietnam Gr2	ICE Robusta	+500	ICE Robusta	+500
Indonesia Gr4 (max 80 defects)	ICE Robusta	+320	ICE Robusta	+430

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