



# Coffee Market Overview

07 October 2022

## “Bols-tering BRL”

- The dollar took a breather from its recent relentless ascent this week, allowing commodities, currencies, and equities some brief bear market rallies. Commodities gained strength on news of large OPEC cutback plans.
- A stronger than expected performance by Bolsonaro in last week’s votes allowed the BRL to firm. However, intense campaigning ahead of the second round, alongside an uncertain macro, should mean a month of continued FX volatility.
- Coffee futures were choppy over the week, although NY spreads widened sharply reflecting short-term tightness and declining certified stocks.
- Regular rains across the coffee belt in Brazil continued to help with flowering. Hailstorms were experienced in some areas of SM and ZDM, damaging the coffee, but only a small area was affected. No risk of a lack of follow up rain for now.
- In Vietnam, some fresh cherries are starting to trickle in from farms, while industry interest for new crop is rising for Nov-Feb shipment.
- Colombia’s September 2022 production was 31% lower y/y at 834K bags. In the season as a whole, Colombia produced 11.7 mio bags, 13% less than 13.4 mio in 2020/2021.
- In Honduras, provisional figures from IHCAFE show exports in the 21/22 season were 20% percent down to 4.7 Mio bags.
- ICE certified arabica stocks fell to 417k bags, while Robusta certs fell to 9.30k lots.
- We estimate the net spec position in NY at +23k lots and that in London at + 20k lots.

## Price Comparison

	<u>06.10.22</u>	<u>Change Vs. 30.09.22</u>
ICE Arabica Dec 22 (c/lb)	217.70	-8.00
ICE Robusta Nov 22 (\$/mt)	2140	-40
Arbitrage Arabica Dec 22 / Robusta Nov 22 (c/lb)	120.68	-6.05

**ICE Arabica:** Arabica continues to trade in a very choppy, two-way pattern. The strong USD, negative macro environment, and realized rains in Brazil, provide negative arguments while drawing certified stocks, firm FOB differentials, and disappointing new crop yields in Brazil, providing fundamental support. The inverted ZH structure made a new contract high at +10.60. The chart is volatile and threatens to break out of the flag formation.

**Support:** 216.60, 211.65, 204.25

**Resistance:** 227.90, 230.70, 235.40

**ICE Robusta:** Robusta extended the downtrend since breaking through support at \$2200. Nearby physical demand has been consistent reflecting current crop tightness and increased incorporation of robusta in blends, but many traders have become cautious with an ever-changing macro environment. The chart is negative.

**Support:** 2136, 2084, 2021

**Resistance:** 2218, 2245, 2271

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## Brazil

- **Local Market:** Arabica producers provided some liquidity into the early and mid-week highs in KC. Thursday's sell-off dried up the selling however with the BRL remaining volatile. BRL curve is no longer offsetting the market inversion making forward offers less attractive.
- **Weather:** The weather continues to help the flowering with regular rains across the coffee belt. Hailstorms were experienced in some areas of SM and ZDM damaging the coffee but only a small area was affected. No risk of a lack of follow up rain for now.
- **Economy / Politics:** A stronger than expected performance by Bolsonaro results in the election going into a Second round and firm BRL. A month of uncertainty will follow, and we can expect continued volatility.
- **Export Market:** Some volumes continued to be offered nearby as exporters look to limit their exposure to the ZH. Forward offers remain firm on a diff basis vs the inversion. Demand quiet nearby with more of a focus on forward shipments. September shipment numbers the strongest we have seen this season but still not at 'normal' levels for this time of year.

**BMF (type 4/5):** Z2 \$ 256 (-6.00)

**Arbitrage BMF/ICE:** Z/Z -24.25 (+3.5)

**Exchange rate:** Official 5.20 (+ 4% w-o-w)

## Colombia/Latin American Milds

- **Colombia:** Differentials eased further and more business started to take place, finally. September 2022 production was reported as 31% lower than the same month in 2021 (834K bags versus 1,2MM bags, respectively). In terms of the coffee year, Colombia had a total production of 11.7MM bags, 13% less than 13.4MM bags of 2020/2021 coffee year. Related to Exports, the trend was quite similar, 35% lower versus 2021 (820K bags versus 1.1MM bags). Exports reported as 11,9MM, **COP:** H4616 L4462 C4545.
- **Guatemala:** After many weeks of heavy rains, the weather improved. The ripening seems to be slightly ahead of last year and in the Oriente, some mills started operating. Good business has been reported.
- **Honduras:** Holiday Week in Honduras, internal market was very quiet. Provisional figures from Ihcafe showed exports in crop 21/22 20% percent down to 4.7 Mio bags. Interest remains relatively slow.
- **Costa Rica:** Demand is still limited to sporadic/shy inquiries; materializing only those interested in reliable sources. The rainy season gave a break before tropical wave 41 will bring back heavy rains again to nearby Caribbean areas.
- **Peru:** Last cherries are getting harvested while the weather became sunnier. Sporadic demand for specific grades, but little business overall. Exporters are mostly committed to covering and shipping existing commitments.

## Africa/Papua New Guinea

- **Kenya:** Quality and pricing is dropping as we reach the tail end of the early crop. Some rains across coffee growing regions but unsubstantial, soil moisture remains low.
- **Tanzania:** A total of 7,879 bags were on offer this week, again mainly FAQ coffees. We saw coffees being offered up a third time and still got no homes due to the high reserve prices. We are now past the peak of the harvest in Mbinga and Amcos have started milling. Next week's auction has been postponed due to low volumes in Mbinga.
- **Uganda:** Mt Elgon harvest is continuing to evolve in higher altitudes. Pricing for cherry amongst buyers is competitive whereas price levels for parchment continues to be stable. In the Rwenzoris the flow of Cherry and parchment will peak toward the end of the month.
- **Ethiopia:** The minimum prices have been reduced by a modest 2 to 3 cts/lb across the board. While offers for washed lots remain relatively firm, exporters are likely to reduce their asking price in the coming weeks before the government labels all washed lots as past crop. Wet mills in the South are slowly getting ready to start operations in the coming 1 to 2 weeks. Harvest is already underway in the Southwest (Teppi, Bebeke and other parts of Bench Maji). There are first indications that cherry prices will start off higher than they did at the beginning of last year.

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- **PNG:** Quiet in the Highlands as the season winds down. Some good activity in the lower Highlands with a decent flow of parchment still. Weaker terminal market levels have elevated differentials locally. Some good showers through most regions this week and fruit pinheads are beginning to form more evenly.

## Robusta

- **Vietnam:** Spot Faq prices are 48,000 VND/kg upcountry, much higher than the 41,000 VND/kg a year ago when LDN was in a similar price range. The new crop is trading at 1,000/2,000 VND/kg discount to spot. Now that fresh cherry is starting to trickle in from farms this spread will narrow in the next few weeks. Grade 2 is trading around -60 FOB in bulk for nearby shipment and around -100 FOB for new crop. Industry interest picked up looking to cover Nov-Feb shipment.

**Weather:** Dry, sunny in the highland, plenty of rain earlier in the week.

**Currency:** 23,870 VND

- **Indonesia:** Basis asalan traded around 31,700/32,000 IDR/kg equivalent to F-85/-65 basis 80 defects. Volume asalan Monday to Thursday was 3.3k mt. Offers for shipment Oct to Dec between -40/-20

**Weather:** above normal rain in central and east Java, normal to above normal rain in South Sumatra

**Currency:** 15,197-15,293 IDR/USD

## Origin differentials for October onwards shipment cts/lb FOB

	This week		Last week	
Brazil Swedish	ICE Arabica	-17	ICE Arabica	-18
Colombia Excelso	ICE Arabica	+65	ICE Arabica	+71
Honduras HG	ICE Arabica	+32	ICE Arabica	+34
Kenya AB FAQ	ICE Arabica	+65	ICE Arabica	+65
Vietnam Gr2	ICE Robusta	-60	ICE Robusta	-40
Indonesia Gr4 (max 80 defects)	ICE Robusta	-40	ICE Robusta	-20

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