



Coffee Market Overview

10 February 2023

“Gradings Fading”

- Coffee prices tried to consolidate this week after the past few days’ strong rally amidst a very volatile BRL. Spec short-covering finally met with some origin selling in arabica, despite sky high differentials.
- The macro environment was mixed; global data is delivering positive surprises with the US job market proving more resilient than ever, Euro zone business activity making a surprise return to growth in January and Chinese growth slowing less than expected. Yet, bond markets continue to price in a recession with deeply inverted yield curves across markets.
- Markets remain nervous about what the positive data means for inflation, and by extension, interest rates. But US Fed Chair Powell reiterated the need for rates to stay higher for longer.
- In Brazil, the retracement in arabica brought local activity to almost standstill this week with lower volumes changing hands than in the previous week.
- In Vietnam, about 65% blossom has opened with normal set for 23/24 Robusta crop. Farmer selling, although still present eased versus the previous week as post TET usually sees farmers sell only at attractive farmgate levels.
- In Indonesia, normal weather in main coffee regions of Sumatera and Java Island provided good conditions for maturation stage for current crop.
- ICE arabica exchange gradings reached zero for the first time since October-22, we expect certified stocks will begin decreasing as Brazil exchange stocks draw. ICE arabica stocks are currently 880k bags. ICE robusta certified stocks decreased below 6k lots for the first time since to 5.9k lots.
- Yet again there will be no COT report tonight, but we estimate the net spec position in arabica is -22k lots and robusta +7k lots.

Price Comparison

	<u>09.02.23</u>	<u>Change Vs. 02.02.23</u>
ICE Arabica Mar 23 (c/lb)	173.65	-4.25
ICE Robusta Mar 23 (\$/mt)	2037	-\$12
Arbitrage Arabica Mar 23 / Robusta Mar 23 (c/lb)	81.25	-3.75

ICE Arabica: Arabica retreated to the original triple high breakout near 175. February began with spec short covering pushing arabica to a 14-week high at 184.20, where origin offers and liquidity were found. Price has been choppy around the 175 level as traders wait for the chart to confirm the next trend. The COT will not be published tonight for a second week, which limits the transparency on which players have been most active trading. There are zero gradings pending at ICE for the first time in several months, so attention will turn to cert direction. The chart is choppy and consolidating near 175.

Support: 171.25, 168.10, 163.15

Resistance: 178.50, 184.20, 193.10

ICE Robusta: Robusta prices were unable to hold above \$2100 as Vietnam selling took advantage of the rally to hedge new crop production. The balance sheet for robusta will be very tight in the coming months, as robusta incorporation in finished products remains at high levels. Robusta will need to work its way through the Vietnam selling, but strong robusta demand is absorbing the liquidity. The chart is neutral and choppy.

Support: 2028, 1976, 1934

Resistance: 2112, 2150, 2173

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Brazil

- **Local Market:** The retracement in futures prices brought local activity to almost standstill this week with lower volumes of Arabica changing hands than in the previous week. The larger co-operatives still choose to hold coffee and maintain discipline as they wait for a higher bid and/or a higher futures market. Exporters evidently covered well into March commitments during/into the January rally, and local industry postpones purchases as they wait for better Conilon differentials. The shipment pace were below expectations, though all eyes will be on the February numbers.
- **Weather:** February continues with good rainfall, although lower levels than the first week of January. Favourable conditions are ongoing but rainfall levels need to be monitored as excessive rains can turn negative for the crop development.
- **Economy / Politics:** Huge volatility in BRL this week with the sentiment turning negative.
- **Export Market:** A calmer week with some bits and bobs traded though the larger shorts lay in wait for more digestible differentials.
- **BMF (type 4/5):** H3 \$ 231 (-5)
- **Arbitrage BMF/ICE:** HH 1.00 (+0.25)
- **Exchange rate:** 5.24 (-4.75%)

Colombia/Latin American Milds

- **Colombia:** Jan production reported as 868K bags (60kg) by the FNC, same figure as Jan 2022. Cumulative production for the current coffee year is 15% lower than the same period last year (3.8 MM against 4.4 MM bags). Slow movement as the crop is coming to an end.
- **Guatemala:** Export data shows a strong reduction of 25.6 % for the October – January period. Two years ago there was a similar pattern in total exports for the same period. Weather was good for the current activities (harvesting and milling).
- **Honduras:** This year's crop is in full swing with good coffee availability, and demand increases for sustainable certified and mainstream coffee. Weather was reported sunny throughout the coffee producing regions.
- **Costa Rica:** Demand continues decreasing causing a drop in the differential levels for higher qualities, as demand slow down for a second consecutive week.
- **Peru:** Low movement as we are in off-season, in the fields the coffee cherries are developing facing the next harvest. The political internal situation continues developing as the congress rejects the president's proposal for early elections.

Africa/Papua New Guinea

- **Tanzania:** As the crop comes to an end, the farmers are rushing to finalize milling their coffee for this crop. This week's auction was held in Mbeya with 8,000 bags of mainly FAQ and Grinder qualities on offer. We expect most of this coffee will be sold as we near the end of the crop and farmers need money for inputs. There will be no auction next week as the first AFCA since the pandemic struck will be held in Kigali.
- **Kenya:** The main crop is now in full flow. Quality has improved and pricing has risen dramatically in line with the quality. starting to flow in sizable volumes this week combined with the first amin crop pickings from the Central region. Eastern coffees are starting to tail off now as their season comes to a close. Quality remains exclusively FAQ. Bean size remains small overall. Pricing on all grades remains stable.
- **Ethiopia:** This week the minimum price has been revised up by 2 to 3 cts/lb across the board. Offers of washed coffee at the minimum price remain too high for many buyers. Also, prices of commercial naturals make trading of significant volumes impossible. January exports have turned out to be the lowest over the last 5 years, with an estimated 140k bags shipped during the month.
- **PNG:** Unchanged flow in most provinces while awaiting the main crop. Fly crop quantity and quality remains good and steady in the Western Highlands. Demand remains quiet.

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Robusta

- **Vietnam:** Upcountry prices traded in a 44,500 to 45,800 VND/kg range this week. Volumes offered are reducing as farmers have less cash needs and have sold around 60% of the crop so far. There is almost no liquidity at the market lows as producers wait for prices to rebound. Grade 2 is offered around -70/-80 FOB in bulk for nearby shipment. Industry continues to add cover. Weather: Dry and sunny Currency: 23,570 VND
- **Indonesia:** Basis asalan traded around 31,500/31,800 IDR/kg equivalent to K+10/+30 basis 80 defects. Volume asalan Monday to Thursday was 3.1k mt. Offers around around +70/+80 FOB for 80 defects for Mar and Apr shipment. Weather: Normal weather this week in the main coffee areas of Sumatra and Java. Currency: 15,057-15,120 IDR/USD

Origin differentials for February onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	+10	ICE Arabica	+12
Colombia Excelso	ICE Arabica	+53	ICE Arabica	+54
Honduras HG	ICE Arabica	+29	ICE Arabica	+29
Kenya AB FAQ	ICE Arabica	+60	ICE Arabica	+60
Vietnam Gr2	ICE Robusta	-70	ICE Robusta	-40
Indonesia Gr4 (max 80 defects)	ICE Robusta	+70	ICE Robusta	+180

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