Coffee Market Overview

10 Nov 2023

"Un-Cert-ain Smile"

- Coffee futures rallied over the week, with arabica posting a fresh 4-1/2 month high and robusta climbing to a 2-week high, with arabica exchange certified stocks continue to dwindle and robusta exchange gradings slowing.
- This was despite a risk-off macro environment over the week, with the US dollar firm again after renewed hawkishness by US Fed Chair Powell and stocks halting an 8-day rally.
- The BRL is up 2% this month, but still short of testing 4.84/USD, a key resistance. Brazilian producers remain disciplined and control volumes on offer, while exporters manage inventories and remain poorly covered.
- El Niño conditions are forecast to continue through the Northern Hemisphere during April-June 2024 with a 62% chance, according to NOAA.
- Brazil received limited rainfall across all regions except for Bahia; forecasts indicate dry weather for next week followed by light rains for all regions.
- Colombia produced 1.16 mio bags of arabica in October, up 30% y/y, according to the national coffee federation. Exports in October fell 4% y/y to 906k bags.
- Bids and offers remain far apart in Vietnam, with buyers waiting for prices to stabilise ahead of the arrival of fresh beans as the harvesting pace accelerates this month.
- Vietnam's coffee exports in the first 10 months of 2023 totaling 1.3 mio tonnes, a 10.7% decline from the same period last year, government customs data showed.
- ICE arabica certified stocks stand at 302k bags, the lowest since 1999, while robusta stocks are at 3,998 lots.
- We estimate the net spec position in arabica to be +8k lots and robusta to be +28k lots.

Price Comparison

	11.9.23	Change Vs. 11.2.23
ICE Arabica Mar 24 (c/lb)	174.20	8.85
ICE Robusta Jan 24 ($/mt)	2430	102
Arbitrage Arabica Mar 24 / Robusta Jan 24 (c/lb)	63.98	4.22

ICE Arabica: The March contract rallied to the highest price since June, topping out at 174.45. Certified stock declined to the lowest level since 1999, to 302,235 bags, firming the nearby structure and supporting flat price. There are zero bags pending grading and FOB differentials are offered above tender parity which puts pressure on KCZ shorts. December options expire on November 10th and large open CSO and option positions create high volatility as gamma is managed. The chart is positive but highly dangerous.

Support: 163.20, 159.70, 156.25 **Resistance:** 174.45, 181.25, 190.30

ICE Robusta: The January contract rallied $102 during the week and prices are once again in the middle of the range near $2400. The robusta balance sheet is very tight for the coming year and buyers are lining up to secure the 23/24 Asian supply. Vietnam new crop liquidity is picking up but the inverted price structure raises the cost on forward offers. The chart is neutral.

Support: 2377, 2300, 2223 **Resistance**: 2472, 2530, 2568

Brazil

- **Local Market:** Producers sold in a disciplined manner this week and closely managed their volumes on offer. Farm gate levels have increased but no large flush of coffee noted; replacement differentials changed marginally. Exporters remain cautious of building longs considering the current margin structure keeping the nearby internal demand strong. Local industry was side-lined due to the higher internal prices.
- **Export Market:** Reasonable roaster demand but static differentials resulted in reduced transactions.
- **Weather:** Light rains are expected, the outlook looks dry for the time of the year.
- **Economy / Politics:** Volatility on the BRL continued. Strengthening against the USD towards to end of the week.
- **BMF (type 4/5):** H4 212 (+8.55)
- **Arbitrage BMF/ICE:** HH -13.75 (+3.00)
- **Exchange rate:** 4.95 (-1%).

Colombia/Latin American Milds

- **Colombia**: Some volume changed hands this week. Rains were noted over the week however IDEAM (Colombian Institute for Climatic Reports) note the second half of November indicates drier weather pattens as a result of El Niño. FNC released October Production and Exports figures: with 1,15MM bags, production showed an important increase when comparing with the same month in 2022 (30%).
- **Guatemala**: With the current weather conditions, the maturation process has slowed a little, and therefore, cherry milling has also decreased in volume for this time of the season. All mills in the Oriente region are operating and there are some deliveries on the way to exporters warehouses. The flow should start to pick up next week, as weather conditions improve. According to a recent report from Anacafe, the incidence of Roya during October stands at 10.02% which is lower than a year ago, but a 2.52 % increase when compared to September 23. Some strong rains have been reported, mainly in the central and northern departments. Temperatures have decreased and are currently in the high teens / low twenties.
- **Honduras**: Slow week due to bad weather across the country with rain almost every day, and several floodings in the northern areas. Low qualities of coffees available and in small amounts, crop harvest is not expected to be in full swing until December.
- **Costa Rica**: Weak demand noted this week and roasters still slow at materializing business. Cherry volumes are increasing by the day. Last week's heavy rains caused landslides, road closures and flood emergencies. Despite this, an improvement in weather conditions is expected, representative of the final transition from rainy to dry season, which is characterized by sunny mornings and intermittent rain in certain parts of the territory.
- **Peru:** This week had rainy days helping pruning and fertilization activities on the farms. The blossom progress for higher altitudes is 98% and mid lying altitudes is complete. Some demand noted for high-end specialty and Grade 1 conventional coffees.

Africa/Papua New Guinea

- **Kenya:** Main crop harvesting is ongoing, whereas the early crop coffees are still being sold through the auction because of the delays in milling associated with the industry regulatory reforms. Pricing remains firm and screen size is very low.
- **Tanzania:** Moshi hosted a successful auction this week, offering 10k bags of freshly stored coffee and 22 bags of old crop. Most of the coffee was of FAQ grades, as the higher-grade coffees are mostly moving through the direct export window. The auction results indicate that over 90% of the coffee was sold at the auction floor and almost everything that received counter bids was confirmed. The next auction is scheduled for next week in Mbeya.
- **Ethiopia**: The Coffee and Tea Authority called a meeting of exporters and international buyers to discuss EUDR. The Coffee Authority will take the lead in coordinating the activities of exporters, producers, and the relevant authorities in the coffee-growing regions. The price of red cherry continues at much lower levels than in the last couple of years.
- **PNG**: Green coffee flow in the Eastern Highland Province has continued well through the week. The slight decrease in overseas demand has slowed the buying of many export units. Local differentials have weakened with the upward movement of the terminal market.

Robusta

- **Vietnam:** The new crop coffee is finally starting to arrive with promising quality as the weather is dry and sunny this week. The harvest is expected to pick up towards the end of the month. Upcountry prices trade in a 57,000-59,000 VND/kg range. Physical activity is building helped by a higher terminal market. Weather: dry and sunny. Currency: 24,370 VND
- **Indonesia:** Moderate-intensity rains in the southern Sumatera regions noted this week which brought much-needed relief to coffee farms, and similar rainfall reported in the main coffee regions of East Java. Nevertheless, the earlier drought damage in areas like Semarang, Lahat, Muara Dua, and Tanggamus has already impacted the potential for the 24/25 crop. Total arrivals were 1,449 MT (24 K bags), 8% higher than the same period in week 44.

Origin differentials for November/December onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-15	ICE Arabica	-13
Colombia Excelso	ICE Arabica	+10	ICE Arabica	+15
Honduras HG	ICE Arabica	+6	ICE Arabica	+9
Kenya AB FAQ	ICE Arabica	+75	ICE Arabica	+75
Vietnam Gr2	ICE Robusta	+130	ICE Robusta	+130
Indonesia Gr4 (max 80 defects)	ICE Robusta	+600	ICE Robusta	+600