



Coffee Market Overview

11 August 2023

“Calling all Conilon”

- Cooling inflation trends, primarily in China, but also in the US, may not have provided a good backdrop for commodities this week, but softs still managed to eke out overall gains.
- The US dollar index weakened as US July CPI numbers came in line with expectations, reinforcing the view that Fed rates have peaked. In turn, this allowed the BRL to recover from last week's lows.
- Arabica coffee futures continued to trade in the 152-162 c/lb range, while Sep robusta pushed higher to \$2,700/t, before easing back.
- Brazil exported 2.69 mio bags of green coffee in July, 22.3% more than in a year ago, according to Cecafe data, driven primarily by conilon volumes. The latter totalled 505k bags in July, a whopping 119% m/m gain and 245% y/y increase.
- The weather in Vietnam remains favourable for cherry filling, indicating stable productivity levels ahead, although area reduction has been noted as some farmers have switched to more profitable fruit-bearing trees such as Durian.
- Coffee exports from Vietnam fell 3.4% on an annual basis in the January-July period, according to customs data.
- Indonesia's coffee harvest is 93% complete as of end July, of which farmers have sold 85%. Domestic roasters have aggressively been buying since March 2023, raising local prices and making domestic sales more attractive than FOB business.
- Honduras coffee activity remains slow, with very limited, if any coffee available and most exporters are finished for the year. Focus is on new crop and new export regulations.
- ICE arabica certified stocks stand at 520k bags, while robusta certs have dwindled further down to 4.9k lots.
- We estimate the net spec position in Arabica to currently total -15k lots and robusta 31k lots.

Price Comparison

	<u>10.08.23</u>	<u>Change Vs. 03.08.23</u>
ICE Arabica Dec 23 (c/lb)	159.65	-4.35
ICE Robusta Nov 23 (\$/mt)	2534	18
Arbitrage Arabica Dec 23 / Robusta Jan 24 (c/lb)	44.71	-5.17

ICE Arabica: Arabica rallied above the July highs but was unable to hold above resistance at 165. There is a slower summertime pulse of business, and the chart appears neutral between 155 and 165. The chart is neutral.

Support: 154.05, 150.00, 143.00

Resistance: 163.10, 168.10, 172.15

ICE Robusta: Robusta also rallied to the highest price since late June, but the real test will be closing above \$2600. Differentials for Asian robusta are at record high levels, but high shipments of conilon from Brazil provides liquidity for industry buyers and could find some volumes feeding the ICE board. The chart is neutral.

Support: 2508, 2461, 2385

Resistance: 2584, 2631, 2708

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Brazil

- **Local Market:** Nearby short covering has kept prices firm in the internal Arabica market this week. Diffs firmer by 1-2 cents week on week as any rally or currency weakening is met with active bidding. Conilon trades in more size as the BRL/bag gap widens. July shipments showed lower Arabicas and higher Conilon numbers.
- **Weather:** Good conditions as the harvest moves into the last phase.
- **Economy / Politics:** The BRL bounced off recent lows as the greenback weakened. The 4.80/4.90 range continues.
- **Export Market:** Demand continues as roasters look to add further out coverage. Diffs offered on a firmer basis further out which means business is patchy.
- **BMF (type 4/5):** KU3 \$ 192.5.00 (-4.00)
- **Arbitrage BMF/ICE:** UU -16.50 (+1.75)
- **Exchange rate:** 4.87 (reval 0.25%)

Colombia/Latin American Milds

- **Colombia:** We've seen good interest for Q2 2024 shipments in recent days. Weather conditions to be good with sunny days and scattered rainy days. On the political side, it's been a very agitated week for Nicolas Petro after confirming the source of illicit "donations" to the presidential campaign. H4172 L3988 C3984.
- **Guatemala:** With the year advancing there's still some coffee available, alongside suppliers lowering price ideas. However, this should not be taken for granted as many have bought cherry at the beginning of the year when with the market still on the high side. Weather has seen some sporadic rains across coffee regions, which has helped the current canicular period to avoid loss in humidity. The second turn of the national elections will take place on Sunday August 20, both political parties are left leaning.
- **Honduras:** very limited coffee available as most exporters are finished for the season. Weather has been rainy despite being in summer season, however this has helped the flowering for the new season. Slow demand in the external market for new crop while we wait for final news on the 23/24 forecast. Honduras is undergoing a high dengue fever outbreak; health experts request a country wide sanitary emergency.
- **Costa Rica:** Demand slowly begins to recover from various directions but only shy demand for new crop. Despite El Niño noises the crop is still developing as usual and lowland first harvestings are expected soon. Parallely, millers / exporters run to liquidate/export the remaining 22/23 crop stock.
- **Peru:** The 23/24 harvest is advanced. In Pasco and Moyobamba the harvest is advanced in low and mid altitudes. Jaen and San Ignacio in the high altitudes are at the peak. The port of Tianjin, the most important port in northern China, inaugurated a new direct maritime route with Central and South America that will reduce transport times.

Africa/Papua New Guinea

- **Kenya:** The auction date has now been confirmed and will take place on 15 August. This came after a long period of uncertainty due to licensing issues. Brokers will be selling coffee, which initially was done so by the marketers. Two changes will be implemented to ensure smooth operations: Introduction of a Direct Settlement System, which will pay all the players once coffee is sold via auction. Coffee buyers will pay to DSS and DSS will pay the millers, brokers, warehouse and the growers. Additionally, they will introduce Nairobi Coffee Exchange Trading rules 2023 to guide the trading regarding new changes.
- **Tanzania:** The harvest in Mbeya and Mbozi has significantly declined with around 80% of the harvest already complete. This has led to an improvement in dry mill collection and the processing at dry mill level has started. Meanwhile, in Mbinga and Nyasa, the season is progressing well and all AMCOS are witnessing higher volumes as farmers have reach the harvest peak. Despite recent rainfall in most areas, there has been no impact to drying operations. First auction of the season is anticipated to be held on 24 August in Mbeya.
- **Ethiopia:** As the new harvest approaches, the National Bank of Ethiopia (NBE) has modified the forex retention rules for exporters, increasing the percentage of dollar exporters can retain from 20% to 40%. This will likely contribute to the competitiveness of prices from Ethiopia. According to the new rules, the NBE itself claims 50% and the relevant commercial bank gets 10%.
- **PNG:** Harvesting is almost complete across the Highlands, with some pockets in the lower Highlands continuing. Morobe province is still showing good flow. The selling pace for green remains high and the quality is holding well. Prices for cherry have firmed while arabica futures traded lower. Demand over the past two weeks remains slow.

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Robusta

- Vietnam:** Domestic market is at 71,000 VND/kg and new crop offers are based on 58,000 to 59,000 VND/kg upcountry, with agents raising prices as export demand picking up while forward farmer sales remain thin. FOB offers around U+450 for G2 immediate shipment and +120/+160 for early new crop. Good demand for Dec-Feb shipment and many inquiries for long spreads as well. July exports were 30k mt lower month on month and will continue to slide next months as farmer stocks are negligible. Weather: Mostly dry and sunny this week. Currency: 23,730 VND
- Indonesia:** Basis asalan traded around 43,250 to 43,500 IDR/kg equivalent to X+430/+300 FOB basis 80 defects. Volume asalan Monday to Thursday was 5.7k MT. Offers around X+440/+450 FOB for 80 defects for Sep and Oct shipment. Weather: Continued dry weather has been reported in the southern regions of Sumatra which is considered normal for the time of the year. Currency: 15,178-15,204 IDR/USD

Origin differentials for August onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-16	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+22	ICE Arabica	+21
Honduras HG	ICE Arabica	+14	ICE Arabica	+14
Kenya AB FAQ	ICE Arabica	+45	ICE Arabica	+45
Vietnam Gr2	ICE Robusta	+450	ICE Robusta	+500
Indonesia Gr4 (max 80 defects)	ICE Robusta	+450	ICE Robusta	+485

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