

# Coffee Market Overview

11 November 2022

## “Stocks Inflate on Lower Inflation”

- A potentially game-changing US inflation print on Thursday sent risky asset classes soaring amidst the expectation of an eventual Fed pivot. The lower-than-expected October CPI number suggests US inflation is peaking and as consequence investors are pricing in a 71.5% chance of just a 50-basis point Fed rate hike in December.
- The sharp consequential plunge in the USD index sent most commodities and equities higher, helped by news that China will be relaxing some of its more heavy-handed Covid policies.
- Bucking the risk-on trend though was the BRL, which ended a volatile week down sharply amidst investor fears that Lula aims to prioritize social spending over fiscal and economic discipline.
- Coffee prices were also very volatile, suffering from continued fund selling, but recently getting some support from the pivotal global macro-outlook late in the week, BRL weakness notwithstanding.
- Brazil’s October coffee exports totalled 3.18 mio bags, down 2.8% y/y, but the highest levels since March. Arabica exports rose 3.3%, at 3.07 mio bags.
- Weighing on coffee prices has been the sizable increase in pending gradings, which allowed arabica certified stocks to recover to 448.7 k bags. ICE robusta certified stocks fell to 9.02k lots.
- Weather in Vietnam is overall beneficial for the 22/23 harvest, which is estimated to be over 25%. Physical selling is picking up noting good roaster demand.
- We estimate the net spec position in arabica to have decreased further to -19k lots and robusta to -26k lots.

### Price Comparison

	<u>11.11.22</u>	<u>Change Vs. 04.11.22</u>
ICE Arabica Dec 22 (c/lb)	167.70	-2.20
ICE Robusta Jan 23 (\$/mt)	1827	-42
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	84.83	-0.30

**ICE Arabica:** Arabica continued the lower trend, although at a slower pace than we’ve seen since early October. There is also hope for the bulls that Thursday’s new low and higher close shows the spec shorts are getting saturated, and the price is ready for a relief rally. The macro remains a price driver as below-expectation CPI data pushed the USD lower and helped to lift assets. Coffee may be helped by the lower USD, but it also has to contend with a weakening BRL. The chart is negative, but showed the first early signs of bottoming price action on Thursday.

**Support:** 166.10, 155.65, 147.65    **Resistance:** 173.25, 180.00, 192.00

**ICE Robusta:** Robusta price action mirrored arabica during the week, with the January contract trading down to new lows before finishing in the green on Thursday. System specs were the best sellers while roasters used the selloff to add futures length. Vietnam is in the early stages of the new crop harvest, which should provide hedge liquidity in the coming months. The Tet holidays begin on January 23rd, and it is typical that producers sell 50% of the harvest before Tet. The chart is negative and oversold but finding early support at \$1800.

**Support:** 1800, 1746, 1700    **Resistance:** 1900, 1922, 2000

## Brazil

- **Local Market:** The first half of the week saw the market nosedive further, making any internal activity very difficult. Let's see if Thursday's rally is sustained and can stimulate more liquidity from the producer that is currently absent. October shipments were strong resulting in a record 12-month revenue in USD terms. Conilon is still flavour of the month for the local industry (550 R\$).
- **Weather:** some more showers were reported. The weather so far has been favourable with the exception of a few isolated hailstorms where a field assessment is warranted. Questions are being raised about potential dryness forecast for the weeks ahead ...but too early to flag anything meaningful.
- **Economy / Politics:** BRL volatility reflects the current political environment as investors will follow Lula's policy ambitions closely.
- **Export Market:** Demand is present, with small pockets of volumes being transacted and firmer differentials. Strong shipments for Sept and Oct reflect the market's continued addiction to Brazil naturals and it will be interesting to see if this shipment pace can be sustained following the peak in November.  
**BMF** (type 4/5): Z2 \$ 202 (-3)  
**Arbitrage** BMF/ICE: Z/Z -18 (-1)  
**Exchange rate:** Official: 5.35 ( -4% w-o-w)

## Colombia/Latin American Milds

- **Colombia:** In October 2022 coffee production was reported on 888k 60kg bags, 12% lower than in October 2021. Still heavy rain across the country affecting all main coffee production areas. COP price continued reaching historic lows, but towards the end of this week, the price firmed. COP: H5123 L4785 C4781.
- **Guatemala:** As expected, rains were reported all over the coffee regions during the weekend and early week. Along with the rainy season, Roya incidence has started to spread after low levels were reported in September.
- **Honduras:** Internal market started moving as cooperatives expect the harvest to build up in early December. Despite rainstorm warnings, the weather was stable and dry through the coffee-producing regions over the week.
- **Costa Rica:** Little activity during the week, foreseeing a solid, farmer base to deliver in the upcoming months.
- **Peru:** The 2022 harvest is complete, and the blooming across all regions for the 2023/24 crop is near to end. Weather remains mostly dry and in line with this time of the season.

## Africa/Papua New Guinea

- **Kenya:** Prices at auction have been stable for the past few weeks and are in line with the quality on offer. Volumes are now dropping. The harvest of the main crop is ongoing.
- **Tanzania:** The seventh auction of the season took place in Mbinga, Ruvuma. 11,000 bags were on offer, including 2,000 bags from previous auctions. Quality remained mainly FAQ and Grinders. Over 50% of the sales were confirmed on the floor and we predict that about 80% will be sold in the end. There will be no auction next week.
- **Ethiopia:** The 22/23 crop season is gearing up to be very tricky for most akribis and exporters. With a coffee tax being introduced in Oromia, and the regional government advising that red cherry should be traded at ETB 50/kg, sets for trading and exporting washed commercial coffees to be a difficult task. Shippers have now started offering new crop as the harvest is well underway.
- **PNG:** Very little activity throughout the week, in line with the time of the season. Local prices remain firm.

### Disclaimer

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## Robusta

- Vietnam:** FAQ is trading around 40,500/41,000 VND/kg upcountry in limited volume as farmers are busy harvesting around 25% of the crop picked already. Grade 2 is trading around -100 FOB in bulk. Good demand was seen from all corners for nearby positions out to the end of next year. Weather: The weather is very good and favourable for the time of the year and supportive of harvesting activities. Currency: 24,835 VND
- Indonesia:** Basis asalan traded around 30,000/30,300 IDR/kg equivalent to F+75/+95 basis 80 defects. Volume asalan Monday to Thursday was 1.6k mt. Price indications from local exporters are around +160 FOB for 80 defects. Weather: Average to above average rainfall in South Sumatra while above average in Java. Currency: 15,674-15,701 IDR/USD

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

	This week		Last week	
Brazil MTGB GC	ICE Arabica	-15	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+55	ICE Arabica	+55
Honduras HG	ICE Arabica	+31	ICE Arabica	+32
Kenya AB FAQ	ICE Arabica	+62	ICE Arabica	+62
Vietnam Gr2	ICE Robusta	-100	ICE Robusta	-100
Indonesia Gr4 (max 80 defects)	ICE Robusta	+160	ICE Robusta	+140

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