



Coffee Market Overview

18 August 2023

“Broken China”

- Macro was distinctly in risk-off mode this week, with global shares hitting two-month lows, US treasury yields topping 15-year highs, the US dollar up for a 5th week, and crude oil snapping a 7-week winning streak.
- All of this stemmed from troubling signs out of China, not just slowing economic growth, but also potential defaults out of key property developers and more worryingly, issues over China's shadow banking sector.
- In addition, positive data out of the USA (along with mixed/hawkish minutes from the last Fed meeting) led to markets pricing in central bank rates staying higher for longer.
- The negative backdrop caused coffee prices to tumble sharply, falling through key support levels. Weakness in the BRL and other EM currencies did not help.
- Brazil saw dry weather across all regions - favourable for lifting and drying operations - with Cooxupe reporting their harvest 89% complete. However, forecasts indicate light rains for the next weekend for all regions.
- In Indonesia, harvesting is concluding in southern Sumatra highlands; Java has one more harvest left. As of the end of July 2023, 93% of the 23/24 crop was harvested.
- Vietnam is expected to produce 29.6 mio bags of coffee from the 2023/24 crop, according to a Reuters poll, slightly below the previous season.
- Costa Rica exported 33.3% less coffee in July y/y, according to ICAFE. The 102k, 60 kg bags are the lowest monthly export in five years, caused by logistical problems with boarding containers.
- ICE arabica certified stocks stand at 515k bags, while robusta certified stocks have fallen further to 3.86k lots.
- We estimate the net speculator positioning in arabica is currently -20k lots and robusta +27k lots.

Price Comparison

	<u>17.08.23</u>	<u>Change Vs. 10.8.23</u>
ICE Arabica Dec 23 (c/lb)	149.10	-10.55
ICE Robusta Nov 23 (\$/mt)	2391	-143
Arbitrage Arabica Dec 23 / Robusta Jan 24 (c/lb)	43.50	-1.20

ICE Arabica: Arabica made another leg lower and is nearing the lowest price of the year. Arabica structure weakened along with flat price. Specs have been the best sellers while industry has been a very patient, scale down buyer. The chart is negative and threatening the January low at 144.85.

Support: 144.85, 140.00, 122.75

Resistance: 152.10, 155.00, 157.40

ICE Robusta: Robusta sold off hard as the weight of arabica's negative price action spilled into London. The robusta balance sheet remains tight with firm diffs in most origins and drawing destination stock, however the bears are focused on demand, which they believe is weak, big July shipments of conilon (505k bags), and the belief that the Vietnam crop will enter the market early and will be well sold by the producer. The chart is negative.

Support: 2351, 2330, 2213

Resistance: 2404, 2436, 2463

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Brazil

- **Local Market:** A weak arabica futures market has resulted in firmer differentials both in the internal market and on a FOB basis. Producers who were happy sellers 10 cents higher now hold off a little to see where the market settles after this technical weakness. Internal conilon flow continues though at a slower pace than previous weeks when prices were better. We expect producer in both segments to be happy sellers into rallies.
- **Weather:** Generally good conditions with rain experienced in some areas and forecasts showing further rains.
- **Economy / Politics:** The BRL continued its weakening trend as it leans towards the 5.00 mark for the first time since end May 23.
- **Export Market:** Demand continues its healthy run as roasters continue to look to access differentials despite the recent firmness. It seems a policy of securing volumes continues to filter across different destination markets which is promising given demand uncertainty.
- **BMF (type 4/5):** KU3 \$ 187.50 (-5.00), **Arbitrage BMF/ICE:** UU -7.50 (+9), **Exchange rate:** 4.98 (deval 2.00%)

Colombia/Latin American Milds

- **Colombia:** The internal market saw a decrease of the flow in last weeks. Weather conditions this week have been similar to previous ones: dry days with rainy nights. Still, strong showers in specific regions in the North of the country. On the political side, during his most recent speech Colombian President, once again, said if the FNC leaders are not able to restructure the institution the contract for the administration of the National Coffee Fund, won't be renewed. FNC's CEO, Germán Bahamón in an interview replied: "if the contract for the administration of the National Coffee Fund is not renewed, it would be catastrophic, not only for the FNC, but for the entire population of coffee farmers in the country". H4133, C4124, L3927
- **Guatemala:** It was a quiet week, with a holiday on Tuesday for Guatemala City. Little movement was seen, mainly due to the market action, as producers and intermediaries with unsold coffee are still waiting for better market conditions. Weather has been dry, with pests very much under control. The road to the Pacific Ocean has collapsed as water runs under the road and has been carving several holes. This has slowed logistics and transit going to Puerto Quetzal and the South Coast in general.
- **Honduras:** Rain during summer has producers worried it might negatively impact their crop. Farms in different regions are flowering rapidly, we might expect to see coffee early for the new crop. Rainy weather in the northern and central regions of the country. Slow demand for new crop while we wait for final forecasts for 23/24.
- **Costa Rica:** Demand continues to pick up slowly CY 22/23 last quarter and 23/24 first quarter, directly from roasters. Interest has come from all different segments of quality mostly attracted by arabicas lows. Even though the accumulated rain continues to be less than other years, overall, for coffee it is not having any negative impact. Harvest has already begun to produce first pickings in Brunca and Central Region.
- **Peru:** The harvest is almost finished in low and mid-lying altitudes. Regions such as Moyobamba, San Ignacio, Junin, Pasco, and Jaén, have sunny days. The north of the country is the most affected by El Niño, regions such as Tumbes, Piura, Lambayeque and La Libertad.

Africa/Papua New Guinea

- **Kenya:** This week saw the first auction under the new reformed coffee sector. Volumes were low at 3.5k bags offered and quality was FAQ & Grinder. The reform has brought in several dramatic changes to the sector; marketing agents has been discontinued and replaced by a broker function. The most significant change is the law which restricts any party who has association with a licensed buyer/dealer/exporter from participating in milling or marketing/brokering of farmer's coffee. The consequence is that the dry mills which have milled most of the crop in recent years are not currently permitted to function. There are concerns for certified supply chains as most of the certified mills are now not licensed to operate. We anticipate there will be slow progress in the milling of the early crop parchment and that changes may lie ahead.
- **Tanzania:** The harvest continues steadily and reaching its tail end already in some regions. Deliveries to dry mills are improving and coffee processing phase has started. Weather remained favorable throughout the week, with no rain. First auction of the new season to take place on the 24 August in Mbeya with 20k bags on offer.
- **Ethiopia:** Heavy rains continue across the coffee growing areas, increasing CBD risk for the new crop. July exports reported at a six-year low and the huge carry out will further complicate the quality for next year's shipments.
- **PNG:** Flow continues as farmers and intermediaries bring coffee to market. Quality is holding well while stocks in mills and warehouses are growing. Internal prices are holding and differentials have firmed with the lower futures.

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Robusta

- **Vietnam:** Domestic market is focusing on new crop offers between 56,500 and 58,000 VND/kg upcountry while exporters are bidding in the 55,000 to 56,000 VND/kg range. Little business however is being done as Robusta Futures fall. FOB market is more active as industry continue to check for spreads through to mid-2024, booking some offers as trade, exporters build shorts in front of the November harvest. Exports continue a downward path towards the end of the crop. Weather: mixed this week. Currency: 23,980 VND.
- **Indonesia:** Basis asalan traded around 42,000 to 42,500 IDR/kg equivalent to X+300/+320 FOB basis 80 defects. Volume asalan Monday to Thursday was 3.5k mt. Offers around X+400/+430 FOB for 80 defects for Sep and Oct shipment. Weather: Southern part of Sumatra continues to experience typical dry weather for the season. Central and East Java reported dry conditions. Currency: 15,323-15,308 IDR/USD

Origin Differentials for September Onwards Shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-15	ICE Arabica	-16
Colombia Excelso	ICE Arabica	+25	ICE Arabica	+22
Honduras HG	ICE Arabica	+15	ICE Arabica	+14
Kenya AB FAQ	ICE Arabica	+65	ICE Arabica	+45
Vietnam Gr2	ICE Robusta	+450	ICE Robusta	+450
Indonesia Gr4 (max 80 defects)	ICE Robusta	+430	ICE Robusta	+450

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