

Coffee Market Overview

18 November 2022

“Systematically lower”

- Coffee prices continued to fall over the course of the week, driven by system funds on the back of still highly negative charts and a less lucrative futures structure.
- Macro was mixed, as the dollar tried to recover from the sell-off in the previous week, buoyed by some hawkish Fed speakers.
- The BRL fell further though, as investors got spooked by Lula’s political appointments and his fiscally imprudent spending proposals.
- Despite the weaker real, Brazilian sellers were sidelined, discouraged by terminal prices. Nonetheless, November shipments look good, and the weather remains decent.
- US green coffee stocks fell by 58,321 bags in October to 6.32 Mio bags, the second consecutive monthly decrease in stocks, which before that had been growing for five months.
- Vietnam’s coffee regions saw favourable weather for the harvesting and drying process. The harvest pace is estimated at 37%, and more producer selling was noted.
- In Indonesia, excessive rains reported across Lampung and Jambi are not favourable for the cherry filling stage.
- After a few days of significant increases in arabica certs, there was a sharp drop on Thursday. However, pending have risen hugely to just under 600k bags.
- We estimate the net spec position in arabica to have decreased further to -24k lots and Robusta to -28k lots.

Price Comparison

	<u>18.11.22</u>	<u>Change Vs. 11.11.22</u>
ICE Arabica Mar 23 (c/lb)	156.35	-11.35
ICE Robusta Jan 23 (\$/mt)	1818	-9
Arbitrage Arabica Mar 23 / Robusta Jan 23 (c/lb)	73.90	-10.94

ICE Arabica: It was the same old story for arabica with prices dropping to another new low. The main participants in the washout are system funds shorting into scale down industry buying. An important factor throughout the selloff has been the total collapse of the nearby Dec/Mar spread, which has fallen from +10.00 in mid-October, to a low of -3.90 on Thursday. The negative macro along with rising interest rates have created fears of recession and slowing demand for many asset classes. The chart is negative, but perhaps the mood can change once arabica is past FND and there is less focus on the negative performance of the Dec/Mar spread.

Support: 154.05, 147.65, 140.45 **Resistance:** 165.95, 171.45, 175.00

ICE Robusta: Robusta price action continues to mirror arabica. System specs are the best sellers, but they are being joined by Vietnam producers hedging the early new crop harvest. Roasters have taken advantage of the selloff to add futures length, but there could be some buyer’s remorse in both markets for buying too much, too soon. The Vietnam harvest is gathering pace and will provide increased hedge liquidity prior to the Tet holidays on January 23rd. The chart is negative and could greatly use the assistance of a trend change in arabica.

Support: 1769, 1746, 1711 **Resistance:** 1852, 1900, 1985

Brazil

- **Local Market:** As the market struggles to find any sustained support, lower prices keep arabica producers on the sidelines. BRL edging weaker through the week did not bring any decent liquidity from the producer. Local industry showing some higher bids, and Nov shipments run smoothly.
- **Weather:** The weather seems to be fine. Some stronger isolated rains and some hail but nothing dramatic to note.
- **Economy / Politics:** The USD traded from 5.35 to 5.25 and up to 5.55. The market is concerned with forecasts of "limitless" social spending by the new government.
- **Export Market:** Demand continues to show up, but levels are an issue. Time is running out for Q1 deliveries, so some begin to pay up against the firmer offers. Forward business thin.
- **BMF (type 4/5):** Z2 \$ 191 (-11)
- **Arbitrage BMF/ICE:** Z/Z -8 (+10)
- **Exchange rate: Official:** 5.47 (-2.25% w-o-w)

Colombia/Latin American Milds

- **Colombia:** Sporadic business has been reported and the differentials were a shade higher. Rains continue and cause landslides. On average Colombia had 30% more rain during 2022 than in 2021 (which was already a rainy year), this remains a concern for crop development. COP: H5038 L4767 C500
- **Guatemala:** Harvesting is still in the initial phases for the mid and high-producing regions, with slow volume reported in most of the mills. The flow of coffee should start to increase during the final days of the month. Quality has been improving. There has been good business reported for the whole quality range this week.
- **Honduras:** The crop is maturing quickly now, and picking will be soon in full swing. Local availability is still low but should pick up in the next couple of weeks. Good business has been reported in all directions. Sunny weather in all coffee regions.
- **Costa Rica:** Business has picked up and good interest was noticed from all corners of the world.
- **Peru:** The end of the season is approaching, and some demand for high-end coffees is felt but otherwise it feels that the shops are closed. Shipping the existing commitments is the name of the game.

Africa/Papua New Guinea/India

- **Uganda:** Prices firming this week as internal market demand increases for semi-washed arabicas. In general, dry weather, with some rain during the weekend.
- **Tanzania:** No auction this week, next week 13k bags will be auctioned. 9k bags from Mbinga and 3k bags from Mbozi. With the market price continuing to drop there is much uncertainty on expectations for the next auction.
- **Ethiopia:** Offers for new crop are coming even without the minimum price list published yet. Buyers and exporters are eagerly awaiting the Coffee Authority's new crop minimum price list, which will determine how much new crop washed coffees will be traded in the coming weeks. For 21/22 crop offers are also coming at or around minimum prices.
- **PNG:** Internal market is slow this week across all regions, and internal prices are firming. Good weather for crop development.
- **India:** Offer from local shippers coming, not much demand for the current crop. The weather was mostly dry across all coffee regions. Fly picking of the Arabica crop has started in many of the plantations in Tamil Nadu and in a few in Karnataka.

Robusta

- **Vietnam:** Upcountry prices hold above 40,000 VND/kg and there is a steady flow of new crop to the exporters. Harvest is around 35% completed. Grade 2 is trading around -100 FOB in bulk for prompt shipment. Good demand from the industry looking to buy by the end of next year, while exporters focus on nearby offers.

Disclaimer

Any comments or opinions in this report are not intended to be an offer to buy or sell commodities or futures and options thereon as they merely state our views and carry no guarantee as to their accuracy.



Weather: Weather has been perfect, although rains are forecast to return over the weekend.

Currency: 24,775 VND

- **Indonesia:** Basis asalan traded around 29,500/30,000 IDR/kg equivalent to F+70/+100basis 80 defects. Volume asalan Monday to Thursday was 1.1k mt. Price indications from local exporters are around +180 FOB for 80 defects. Weather: Excessive rains were reported in the main coffee region of West Lampung and Jambi throughout the week, while above-normal rains in South Sumatra and Jav. Currency: 15,499-15,687 IDR/USD

Origin differentials for December onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB GC	ICE Arabica	-11	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+54	ICE Arabica	+55
Honduras HG	ICE Arabica	+31	ICE Arabica	+31
Kenya AB FAQ	ICE Arabica	+62	ICE Arabica	+62
Vietnam Gr2	ICE Robusta	-100	ICE Robusta	-100
Indonesia Gr4 (max 80 defects)	ICE Robusta	+180	ICE Robusta	+160

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