



# Coffee Market Overview

20 Oct 2023

## “The Grateful Spread”

- The Middle East crisis has sparked a move into safe-haven assets such as gold and the Swiss franc, whilst boosting crude oil prices. Treasuries, which saw US 10-year yields soar to nearly 5% this week, has been dominated by the higher for longer rate outlook.
- Despite the risk-off mood and strong dollar, coffee futures managed to bounce higher, with arabica passing the 160c/lb mark and Robusta back above \$2400/t.
- Both markets have seen strength in nearby spreads this week as coffee stocks at destinations dwindle, including the certified stock draws, with little to no fresh gradings occurring.
- Coffee shipments out of Brazil are being impacted by tight availability of trucks and containers, while waiting times have jumped due to a record sugar crop and the diversion of cargoes from northern ports to Santos port as a drought lowered the Amazon River's water levels.
- Brazil saw light rains in all regions except for Cerrado and Bahia. The blossom set is as expected due to good levels of soil moisture and vegetative conditions. The forecast indicates rains picking up across all regions Oct 24th onwards.
- Trading in Vietnam stayed slow, with premiums still high. Supplies from the new season harvest are not yet available in sizable volumes as only a few farmers have started to pick ripen cherries.
- Colombia's coffee production fell 12% to 11.1 mio bags in 2022, the lowest since 2013 and the third annual consecutive fall on delayed flowering caused by wet weather, according to FNC. The El Nino weather pattern, which brings drought to Colombia, could affect production for 24/25.
- ICE arabica certified stocks fell over the week to 422k, while robusta certified stocks also fell to 3,586 lots.
- We estimate the net spec position for arabica is -16k lots and that is robusta to be +15k lots.

## Price Comparison

	<u>10.09.23</u>	<u>Change Vs. 10.12.23</u>
ICE Arabica Dec 23 (c/lb)	163.95	14.65
ICE Robusta Jan 24 (\$/mt)	2402	147
Arbitrage Arabica Dec 23 / Robusta Jan 24 (c/lb)	55.00	8.00

**ICE Arabica:** Arabica rallied through the major downtrend line to touch the highest price since mid-September. System short covering was the main buyer. Strength in the nearby Dec/March spread helped to support price. Declining cert stock, firm FOB differentials at origin, and gamma buying against recent CSO trades support the structure. It will be important to watch if origin differentials weaken to halt the upward momentum. The chart is positive.

**Support:** 156.55, 151.65, 143.70

**Resistance:** 164.75, 171.25, 177.50

**ICE Robusta:** The January contract bounced off the recent lows to trade back above \$2400. The rally accelerated as spec buying met limited origin sellers. Firm structure and the tight balance sheet support the rally. Robusta stock at destination is tight and excellent demand for new crop shipments keeps FOB differentials well bid. The chart is positive.

**Support:** 2358, 2223, 2023

**Resistance:** 2510, 2577, 2662

### Disclaimer

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## Brazil

- **Local Market:** The strong futures rally pulled out healthy volumes from the producer. Differentials weakened surprisingly little considering the sharp move up of arabica futures. Grinder qualities however showed the most significant move.
- **Export Market:** Both roasters and trade shorts tried to cover their demand during the week, but most of the demand went unfilled. Strong demand noted from the US market. Differentials remain far above the levels that one would historically expect for this time of the year, with the full arabica crop harvest over and peak availability of arabica coffee processed and available to be commercialised.
- **Weather:** Light rains are expected, quite good conditions overall for the flower set.
- **Economy / Politics:** Volatility on the BRL against the USD diminished this week.
- **BMF (type 4/5):** Z23 195 (+15)
- **Arbitrage BMF/ICE:** ZZ -16.5 (-3.25)
- **Exchange rate:** 5.05 (Unch)

## Colombia/Latin American Milds

- **Colombia:** As the main crop harvest continues, the rally of the futures market helped coffee to move within the value chain. Internal differentials decreased slightly while internal COP outright prices firmed. Crop development is between 30% to 40%. Good demand was noticed from all corners of the world. H4271 L4173 C4240
- **Guatemala:** Intermediaries decided to postpone the opening of their mills as the road blockades continue in several parts of the country. Although less intense than last week, the country is still suffering from the road blockades that are preventing a normal business flow, complicating logistics to levels seen during the pandemic. Rains start to decrease. Good interest was noted this week.
- **Honduras:** A small amount of coffee from the 23/24 crop flow started to be purchased internally, but quality is still low. Good interest was noticed for all kinds of coffees and certifications. The weather turned rainy, and further rainfall forecast for the week ahead.
- **Costa Rica:** Demand remains close to nonexistent with some sporadic business materialised primarily for prompt needs. The coffee harvest appears to be ahead of time, however due to the intense rains experienced along the main producing regions of the country, cherry ripening is right back on track for the traditional cherry harvesting months.
- **Peru:** More conventional coffees appeared on the market and as the futures market rallied, differentials weakened further to levels not seen for quite some time. Sporadic demand for certified coffees noted over the week, but otherwise industry was side-lined.

## Africa/Papua New Guinea

- **Kenya:** Coffee flow remains well below seasonal norms. Main crop picking has started, and a large portion of the early crop remains un-milled. The government remains firm on its reform agenda.
- **Tanzania:** The harvest in the South is complete while only the high altitudes in the North continue their harvest. The auction this week offered 15k bags and saw very active demand from new players. We anticipate most will be sold. Mills are filling up and continue to be very active but due to occasional power cuts, we start to see some delays in milling. We expect a 13k bag auction in Mbeya next week.
- **Ethiopia:** The International Women's Coffee Alliance (IWCA) held its 20th anniversary convention in Addis Ababa during the first half of the week. Participants from across the world are now making their way through the coffee growing regions of Ethiopia. As the harvest season starts, many wet mills are struggling to secure finance for working capital due to the restrictions on the credit market imposed by the central bank.
- **PNG:** A quiet week with arrivals of green and parchment. Reports that farmers are holding some decent volumes of parchment due to price, are yet to be confirmed. Marginal lift in local prices with the firmer futures this week might see some of this withheld coffee come to market in the week ahead. Crop development is progressing well.

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## Robusta

- **Vietnam:** Upcountry prices increased to 58500 VND/kg this week and producers start to offer more volume as the harvest approaches. The weather has been mixed with showers and sunshine, normal for the time of year. G2 is trading 150 to 200 over FOB depending on shipment month and strong demand is seen from industry for both nearby and forward spreads while other buyers wait for selling pressure to pick up in a few weeks. Logistics remain good and freight rates are weak. VND 24570.
- **Indonesia:** Basis asalan this week traded around 44.500 to 45.000IDR/kg, to get sizable volume buyers add 30USD/mt more however. Total arrival asalan Monday to Thursday around 1.8k mt. The continued dry weather spell in Southern Sumatra and Java's main coffee-producing regions over the past week has negatively impacted the blossom and fruit set for the 2024-25 season. Currency traded 15.716/15.838IDR.

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

	This week		Last week	
Brazil MTGB	ICE Arabica	-12	ICE Arabica	-9
Colombia Excelso	ICE Arabica	+20	ICE Arabica	+23
Honduras HG	ICE Arabica	+11	ICE Arabica	+11
Kenya AB FAQ	ICE Arabica	+75	ICE Arabica	+75
Vietnam Gr2	ICE Robusta	+200	ICE Robusta	+150
Indonesia Gr4 (max 80 defects)	ICE Robusta	+550	ICE Robusta	+320

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