

# Coffee Market Overview

21 October 2022

## *“In Markets we Truss”*

- The macro environment remains overall unsupportive, with the yield on 10-yr US notes above 4.25% for the first time since 2008, as markets price in a higher peak Fed rate.
- UK's political turmoil continues, with PM Truss ousted after 44 days in office following market turmoil. Any new PM will face a fractious governing party and an economy heading for recession.
- The dollar continues to firm as asset values are repriced under the looming recession and falling demand.
- The latter was an issue highlighted throughout the Swiss Coffee dinner last week, with roasters reportedly worried about the demand outlook for coffee given the negative economic backdrop.
- NY arabica has weakened sharply in the past 7 sessions, hitting 13-month lows. Speculators likely took profits on some of their long positions and spreads, with momentum traders adding to the bearish trend.
- In Brazil, improved rains have diminished fears over the outlook of the next crop. The week saw light rains across all regions, while forecasts for the next 10 days suggest decent rains in both Arabica and Conilon areas.
- The collapsing market is deterring origin sales, with Brazilian coffee farmers reportedly just 60% sold of this year's crop by Oct 18, slower than the 68% sold this time last year, according to Safras & Mercado.
- Indonesia continues to see above normal rains in the main Robusta regions in Southern Sumatra and Java. With some flooding in areas, farmers cite negative impact on blossom and fruit sets for the 2023-24 crop.
- Despite the bearish market sentiment, ICE certified arabica stocks continue to fall, reaching 392.7k bags. Robusta certs fell to 8.9k lots.
- We estimate the net spec position in NY at +5k lots and that in London at -1k lots.

## Price Comparison

	<u>20.10.22</u>	<u>Change Vs. 13.10.22</u>
ICE Arabica Dec 22 (c/lb)	191.05	-11.10
ICE Robusta Nov 22 (\$/mt)	2041	-56
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	98.47	-8.55

**ICE Arabica:** Another brutal week for arabica, as the price fell to new lows for 7 straight days. Managed money and trade specs bailing out of longs were the best sellers into scale down industry buyers. The catalyst for the price collapse may have been the pessimism over demand noted at the Swiss Coffee Dinner, or perhaps the macro uncertainty caused by a strong USD, rising interest rates and fears of a global recession. The inverted ZH structure, while still inverted, has given up more than half its premium. The chart is negative, oversold and looking for a hero.

**Support:** 182.00, 178.25, 174.50

**Resistance:** 192.85, 198.95, 203.85

**ICE Robusta:** Robusta prices were very choppy during the week, but the end result was similar to arabica. Robusta fell to the lowest level since July, and open interest continues to reduce as participants limit exposure. Nearby physical demand is consistent, reflecting increased incorporation of robusta in blends and new products brought to market with higher robusta content. But robusta cannot sustain rallies in isolation from arabica. The chart is negative.

**Support:** 1967, 1946, 1941

**Resistance:** 2058, 2115, 2161

## Brazil

- **Local Market:** With the continued downward momentum in KC, daily liquidity internally has dried up. Oct and Nov shipment should mostly be covered now. Prices in BRL to the producer are lower, in line with KC and a stable BRL. Question now turns to producer/exporter appetite for Q1 and Q2 23.
- **Weather:** Nothing alarming – good conditions for the crop so far this month.
- **Economy / Politics:** BRL relatively stable to firm in the face of a strong USD. The polls show ever smaller difference between Lula and Bolsonaro.
- **Export Market:** Some more appetite for nearby shipments popping up, mostly driven by flat price being more attractive. Nothing major to talk of though.
- **BMF (type 4/5):** Z2 \$ 225 (-15.6)
- **Arbitrage BMF/ICE:** Z/Z -20 (unch.)
- **Exchange rate:** Official 5.20 (-1%)

## Colombia/Latin American Milds

- **Colombia:** Differentials were further under pressure this week and the FOB business became more active, including for further out positions. The Peso weakness helped to offset NY's decline. Weather remained rainy in most areas, only the south had some sunny days. COP: H4921 L4548 C4904
- **Guatemala:** Producers are completely side-lined after the strong market collapse. Currently, only the lower producing regions are harvesting coffee, while the mid producing regions will start their harvesting activities during the first half of November. Business has been good for the whole quality range.
- **Honduras:** The lower regions have started picking, but the availability of parchment is still low. Demand has been increasing and subsequently also concluded businesses. Weather was dry and sunny in most areas.
- **Costa Rica:** Demand finally revived, particularly from Europe. Prices remain firm as harvested volumes do not pick up, due to low temps and rains delaying the ripening. While the national weather agency informed that La Niña influence will extend for another month, it is hard to imagine how much more the country's infrastructure can be damaged. Transit towards virtually any region outside the city is currently restricted and / or under some level of repair.
- **Peru:** Fresh demand popped up, mainly for certified coffees, but disappeared on prevailing high prices. Exporters keep on covering their commitments and are reluctant to take additional positions as the crop gets closer to its end.

## Africa/Papua New Guinea

- **Kenya:** The main crop harvest is slowly commencing. The prices at auction are dropping, in line with the decline in the quality on offer, as we reach the tail end of the early crop. Rains have been scarce, which is needed for good cherry ripening.
- **Tanzania:** In the North, the harvest is coming to an end while Amcos in the South continue to close washing stations due to low volumes coming in. In Mbeya and Mbozi, farmers have started pruning in preparation for the next crop. This week again did not see an auction due to lacking volumes on offer. Farmers are encouraged to mill their coffees. The weather this week was hot and sunny across the country.
- **Uganda:** Volumes of cherry and parchment flowing from Mt Elgon are now strong, while Rwenzoris volume remains good, both at competitive prices moving with KC. Semi-washed coffee is finding its way to Kampala now in larger volumes. Quality remains promising. Heavy rains are right on time and are not hindering production.
- **Ethiopia:** Offers remain relatively firm despite the looming deadline next week for washed lots to be officially tagged "old crop". Our crop tour in the Southwest is underway, with most areas experiencing an off-cycle crop. We expect this season's crop to be lower compared to the record 21/22 crop.
- **PNG:** Fairly strong resistance from farmers with the falling NY prices over the week. Green coffee on offer has some decent parcels and some noticeable quality deterioration in the mainstream grade, typical of end of season. Prices locally have firmed as expected and will only weaken once farmers and middlemen accept the lowering world price. Good showers through the week. New crop formation is progressing well.

### Disclaimer

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## Robusta

- **Vietnam:** Spot Faq prices traded around 45,500/46,000 VND/kg upcountry. Grade 2 is trading around -80/-90 FOB in bulk for nearby shipment and around -100/-120 FOB for new crop. Industry interest for nearby shipment and forward spreads. Weather: Scattered rains, mixed sunny. Currency: 24,592 VND
- **Indonesia:** Basis asalan traded around 31,200/31,500 IDR/kg equivalent to F+10/+30 basis 80 defects. Volume asalan Monday to Thursday was 2.5k mt. Offers for shipment Nov/Dec between +70/+80. Weather: above normal to heavy rains in the main Robusta areas of South Sumatra and Java. Currency: 15,480-15,579 IDR/USD

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

	This week		Last week	
Brazil Swedish	ICE Arabica	-15	ICE Arabica	-17
Colombia Excelso	ICE Arabica	+58	ICE Arabica	+65
Honduras HG	ICE Arabica	+31	ICE Arabica	+32
Kenya AB FAQ	ICE Arabica	+60	ICE Arabica	+65
Vietnam Gr2	ICE Robusta	-80	ICE Robusta	-60
Indonesia Gr4 (max 80 defects)	ICE Robusta	+70	ICE Robusta	-40

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