

Coffee Market Overview

23 September 2022

“Greenback Comeback”

- The week was centred on monetary committee meetings across the globe as central banks either increased interest rates or maintained elevated rates to keep up with the Fed. The latter raised rates by an expected 75 bps, while their message remained hawkish, sending the US dollar soaring to fresh 20-year highs.
- Currencies fell across the world, as did equities and some commodities – the latter garnered support from Putin’s announcement of an intensified Russian war in Ukraine, which led to renewed fears over supplies of energy and grains.
- Considering the volatile macro environment, the BRL traded fairly well, supported by COPOM’s decision to keep interest rates on hold due to good progress on the Brazilian inflation front.
- Rains have arrived in Brazil, somewhat helping ease fears over dry weather impacts on the late August blossoms. However, conilon regions have remained mostly dry.
- Heavy rainstorms in Honduras are causing road damage, however, the new crop harvest has not started flowing you to have been impacted and very little to no coffee is moving from the current crop.
- Lack of physical liquidity remains the feature in Vietnam’s markets too, with producers sold out and prices range-bound.
- Indonesia saw continued above normal rains in the main Robusta regions in Southern Sumatera, with some farmers reporting damage to fruit-set in the low to medium altitude areas.
- ICE certified arabica stocks fell to below 500k bags for the first time in 23 years. The tightness continues to support spreads. Robusta certs stocks are 9.4k lots.
- We estimate the net spec position in arabica is +25k lots and that in robusta is +27k lots.

Price Comparison

	<u>23.09.22</u>	<u>Change Vs. 16.09.22</u>
ICE Arabica Dec 22 (c/lb)	223.5	7.15
ICE Robusta Nov 22 (\$/mt)	2238	12
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	122.03	6.06

ICE Arabica: A somewhat surprising bounce in the market this week. No change in terms of continuing macro weakness and USD strength. Drawing certified stocks and firm FOB differentials are not a new feature though headline stocks of 500k bags only perhaps finally getting some attention. Probably the main driver was a substantial 2022 crop reduction by a Brazilian forecaster. The continuing severe backwardation is also clearly supportive of prices.

Support: 218.25, 213.05, 206.00

Resistance: 223.45, 227.15, 230.90

ICE Robusta: Little change in price and spreads over the week. We are between crops in Vietnam and the market shows little impetus for the time being though underlying physical demand remains good.

Support: 2200, 2186, 2134

Resistance: 2263, 2298, 2355

Brazil

- **Local Market:** Arabica producers continue to sell small to moderate volumes only, despite the price per bag for line4 and above still hovering around a reasonable 1,300 BRL/bag. Replacement differentials remain relatively unchanged. As a result, exporters are not chasing either for the time being, especially with shipping lines starting to squeeze freight up again with booking cancellations and holding back of equipment. This week Conab released a significantly lower Arabica crop estimate for 2022/23 crop to 32 mio bags (from a previous 35 mio estimate).
- **Weather:** The expected showers actualized into decent rains; widespread over the arabica belt and with a timely onset. All eyes are now on follow through rains in October.
- **Economy / Politics:** The USD traded in a range between 5.25 and 5.15, with the Real performing relatively well. COPOM kept Selic rate unchanged at 13.75 %
- **Export Market:** Sporadic bits and pieces for fill ins only, with buyer`s still considering diffs to firm.
- **BMF (type 4/5):** Z2 \$ 264 (+6)
- **Arbitrage BMF/ICE:** Z/Z -23.75 (-2.50)
- **Exchange rate:** Official 5.15 (-1.50%)

Colombia/Latin American Milds

- **Colombia:** Business got a bit more active, as main focus were the main crop positions. Limited coffee flow is usual for the time of the year, with new crop expected to start into next week. Differentials are under pressure as a result of low demand and the inverse. COP: H4452 L4367 C4470
- **Guatemala:** Reported exports until August 31st are 4.28 % lower than the 20/21 crop year, with only one month to go to wrap up the 21/22 crop season. Various factors are affecting the crop, including bad weather during the harvesting season, lack of hand labour to pick coffee and bad conversion rates. Business remains very slow. Rainfalls have been above average.
- **Honduras:** Heavy rainstorms in the country are causing road damage, potentially affecting producers in the long run. Inquires for new crop are increasing and the price ideas start to match more frequently.
- **Costa Rica:** The internal market remains stale, with farmers not showing any apparent interest to sell and no inquiries come from the external market. Costa Rica is experiencing its most potent rainy season in a century, which has damaged important infrastructure and caused concern for extensive leaf rust outbreaks.
- **Peru:** Harvesting is almost complete. Market activity has been rather dull. Some demand for FTO and conventional coffees appeared, but not much business has been reported. Rains reduce as the spring season is coming.

Africa/Papua New Guinea

- **Kenya:** Volumes are now in full flow with FAQ and Grinders being the majority. Some nice coffees from Eastern Kenya are now coming through, too. Diffs remain stable. The harvest of main crop has started in slow bits.
- **Tanzania:** Third auction of the season, which was held in Mbozi, offered a total of nearly 16,000 bags of primarily coffees from the South and withdraw lots from previous auctions. The qualities remain mainly FAQ and Grinders. Some Northern coffees start to appear at auction, too. Reserve prices remain high, and a lot of coffee was not confirmed on the auction floor.
- **Uganda:** The harvest in the Rwenzoris and Mt Elgon are both close to the peak now with good availability in both, Cherry and Parchment. Quality is very promising.
- **Ethiopia:** Weekly minimum prices for washed coffees remain unchanged, with Naturals revised up by 2 cts/lb across the board. Offers of commercial grades are usually above those prices and not much fresh business is taking place. Last week we saw the recognition of numerous top performing exporters, with the largest exporters recognized alongside those who had high average prices. The national award ceremony also gave recognition to producers who had top standing in the annual Cup of Excellence competition.
- **PNG:** A decent flow of green bean continues in the Eastern Highlands, whereas the parchment availability is not decreasing. Prices stayed mostly firm through the week. Equipment shortages continue and put timely exports at risk.

Disclaimer

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Robusta

- **Vietnam:** Upcountry prices continue to be bid in a 49,000-50,000 VND/kg range with no liquidity as producers are sold out. Grade 2 is trading around -40 FOB for prompt shipment. Still some industry demand for current crop positions while new crop business is slow with both producers and industry not in a rush to conclude any forward deals. Weather: Normal with heavy rains and sunshine. Currency: 23,690 VND
- **Indonesia:** Basis asalan traded around 31,500/31,000 IDR/kg equivalent to X-120/-100 basis 80 defects. Volume asalan Monday to Thursday was 5.8k mt. Offers for shipment Sep to Dec around -50. Weather: above normal rains continue in the main robusta region of South Sumatra, while normal rains in central and east Java. Currency: 14,980-15,033 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	+75	ICE Arabica	+78
Honduras HG	ICE Arabica	+34	ICE Arabica	+37
Kenya AB FAQ	ICE Arabica	+70	ICE Arabica	+70
Vietnam Gr2	ICE Robusta	-40	ICE Robusta	-50
Indonesia Gr4 (max 80 defects)	ICE Robusta	-50	ICE Robusta	-80

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