



Coffee Market Overview

24 February 2023

“Coffee’s Carnaval”

- Macro was subdued this week on continued concerns over global inflation being stickier than expected and the resulting impact on monetary policy.
- The dollar is hovering at 7-week highs, while commodities and stocks eased back. The BRL was slightly firmer from 5.22 to 5.11.
- The inflationary environment remains hinged to the war in Ukraine, which has sent energy and food prices soaring. Now in its second year, and with no signs of resolution, commodities, albeit back to pre-war lows, could again see a geopolitical risk premium due to ongoing conflict in the region.
- Despite the risk-off sentiment, coffee managed to rally again; driven in part by positive momentum, but also due to falling certified stocks – itself a reflection of a lack of deliverable coffee.
- The rally in NY allowed Brazilian differentials to soften as sellers took advantage. Exporters were scale down buyers, but volumes were not large due to the first half of the week being closed for Carnival.
- Weather in Brazil was wet, while next week’s forecasts show decent rains for all regions except for ZM with light rains, Bahia and ES with very light rains.
- Cooperatives and producers in Honduras are sitting on decent quantities of coffee in their warehouses but have been unable to sell it.
- Vietnamese farm gate prices increased w/w by 2500 VND/kg. We estimate that approximately 68% of Vietnam’s 22/23 coffee crop has been price fixed by producers.
- In Indonesia, total cumulative robusta exports for the season so far (Apr-22 to Jan-23) is estimated at 306,948 MT, 19% higher y/y.
- Certified stocks in arabica exchanges have fallen to 809.5k bags, while Robusta certs are now down to 6718 lots.
- In the absence of COT reports from the CFTC, we estimate the net spec position in NY at +5k lots, and that in London at +12k lots.

Price Comparison

	<u>23.02.23</u>	<u>Change Vs. 16.02.23</u>
ICE Arabica Mar 23 (c/lb)	189.70	9.45
ICE Robusta Mar 23 (\$/mt)	2161	\$89
Arbitrage Arabica Mar 23 / Robusta Mar 23 (c/lb)	91.78	5.50

ICE Arabica: Arabica continued to run higher, following an uptrend channel that began in mid-January. KCK touched the highest level since October 17th, with system funds covering short positions and probing for origin liquidity. Weaker differentials at origin were the first sign that the rally may have done enough to release coffee to the market. The COT will publish a fairly useless report tonight, which will provide position data from February 3rd. Up to date data will not be available until mid-March. The chart is bullish with support at the breakout high 184.

Support: 184.00, 182.10, 174.65

Resistance: 194.15, 200.00, 204.80

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.



ICE Robusta: Robusta prices put in another leg higher, trading above \$2200 for the first time since September. The balance sheet for robusta will be very tight in the coming months, as robusta incorporation in finished products remains at high levels and the arbitrage trades above 90 cents. Vietnam is providing liquidity from the new crop harvest, but origin offers will likely thin out during the second half of 2023. The chart is bullish, but extended.

Support: 2109, 2082, 2047

Resistance: 2208, 2298, 2355

Brazil

- **Local Market:** It seems KC felt the Carnival excitement this week. The rally up into the 190s in K persuaded producers to part with some coffee this week. The aggressive move upwards over the early week period was enough to encourage slightly softer differentials and an opportunity for business to take place. Volumes not huge however and in combination with the lower shipments so far this month, the tightness seems far from over. The price gap between Arabica and Conilon increased to 600 R\$.
- **Weather:** Torrential rains along the coast and continuous rainfall in SP and MG has resulted tragically in some loss of life and infrastructural damage. The Impact on the Crop is still being analysed but no alarm bells considered for the time being.
- **Economy / Politics:** The second week in a row of a relatively narrow trading range for the BRL – nothing major to speak of.
- **Export Market:** Fresh demand for FH 2023 showed up and some interest for new crop spreads appeared as well. There is a feeling that more nearby business transacted than on a forward basis.
- **BMF (type 4/5):** H3 \$ 238 (+11)
- **Arbitrage BMF/ICE:** KK -9.75 (-1.25)
- **Exchange rate:** 5.14 (1.25%+)

Colombia/Latin American Milds

- **Colombia:** Even with the stronger COP prices this week, Colombia's internal differentials are easing. The weather is good for the coming mitaca development, and some evening rains were reported at different regions during last week. COP H 4978 C 4876 L 4838
- **Guatemala:** The flow of coffee was still good during the week, but several providers have mentioned that the harvest pace is slowing down. We expect the harvest to be 75% completed by the end of February. There were good weather conditions during the week. During the weekend, wind intensity was strong, and temperatures dropped due to a cold front, but normal conditions returned on Tuesday.
- **Honduras:** High availability of coffee around the country, but the external market is slow. Cooperatives have large amounts of coffee in their warehouses but have not been able to sell it.
- **Costa Rica:** Despite the crop being at the last stage of harvesting, the rains reported may not have a considerable impact on the remaining crop to be harvested.
- **Peru:** Well-received rain across the week helped with the cherries development coming into the next harvest. Slow movement as the off-season continues.

Africa/Papua New Guinea

- **Tanzania:** This week's auction in Moshi offered almost 24,000 bags of mainly FAQ and Grinder qualities. Half of the coffee remained unsold. Milling of current crop coffee is at it's last stages in both, Northern and Southern regions. New crop and cherry development of new crop is moving well in the lower lands.
- **Kenya:** The main crop continues at a good pace with significant volumes. Generally quality is sub par and has dropped markedly from the previous main crop. Weather conditions remain very dry and hot, raising concerns about the forthcoming early crop.
- **Ethiopia:** The Coffee Authority has maintained the minimum price level at nearly the same level for the last 2 months. While business is taking place, it appears to be small and sporadic. Some shippers are still offering coffees from the 21/22 crop at a discount to new crop. January exports were at the lowest in 5 years.
- **PNG:** Higher ICE Arabica market is attracting more farmers and middlemen to sell coffee. Hence, there was a

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.



slight increase in cherry and parchment arrivals in the Western and Southern Highland Provinces during the week. New crop development is reported to be a mixed picture from region to region. New crop demand is still fairly quiet.

Robusta

- Vietnam:** Upcountry prices increased from 46,500 to 49,000 VND/kg during the week following the surging LDN market. Producers remained disciplined scale up sellers, with more volume offered on the highs. Differentials hardly change and show signs of firming as LDN weakens.
 Grade 2 is trading around -50 / -30 FOB in bulk for prompt shipment. Good demand from the industry continues for shipments out to mid-year. Exporters continue to cover shorts and focus to offer Grade 1
 Weather: hot, sunny during the day, and cool at night.
 Currency: 23,800 VND
- Indonesia:** Basis asalan traded around 33,700 IDR/kg equivalent to K-10 basis 80 defects. Volume asalan Monday to Thursday was 3.6k mt. Offers around +50 FOB for 80 defects for Mar and Apr shipments.
 Weather: Rainfall is normal to below normal in the main coffee region of South Sumatra while above-normal rain in Java.
 Currency: 15,168-15,187 IDR/USD

Origin differentials for March onwards shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	+5	ICE Arabica	+10
Colombia Excelso	ICE Arabica	+45	ICE Arabica	+50
Honduras HG	ICE Arabica	+25	ICE Arabica	+28
Kenya AB FAQ	ICE Arabica	+60	ICE Arabica	+60
Vietnam Gr2	ICE Robusta	-30	ICE Robusta	-60
Indonesia Gr4 (max 80 defects)	ICE Robusta	+50	ICE Robusta	+80

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.

