



# Coffee Market Overview

24 March 2023

## “Hike and See”

- A tough week for central banks, who are faced with the dilemma of rising inflation and avoiding a banking crisis. Both the Fed and the BoE hiked by 25bps, while the ECB and SNB raised by 50 bps. But they all had one thing in common; their forward guidance on rates has turned much less hawkish. Most are adopting a wait-and-see approach following the banking turbulence and risks of tightening credit conditions.
- The macro turbulence led to a sharp selloff in crude, with other commodities also slightly weaker. Coffee futures fell nearly 6c/lb on fund liquidation and spread selling.
- Despite the uncertainty, the dollar fell over the week too, as markets repriced the US treasuries outlook, giving gold the crown for the most wanted safe haven. The BRL stayed weak.
- At most origins, the weaker NY market left producers reluctant to sell into lower prices while exporters were unwilling to pay firmer differentials.
- In Brazil, concerns about flooding have abated as drier conditions allow farmers in Minas Gerais back into coffee fields to apply fertilizers and pesticides.
- The Vietnam market has been slow in the past weeks, hit by low stocks and farmers refraining from selling remaining volumes.
- Uganda's coffee exports surged 6% y/y in February to 478.6k bags, as higher prices pushed traders to release larger volumes of stocks from their warehouses, according to the UCDA.
- ICE-certified arabica stocks decreased to 750k bags while the robusta certified stocks remained 7.6 k lots.
- We estimate the net spec position in NY is around flat, while that in London is +23k lots.

## Price Comparison

	<u>03.23.23</u>	<u>Change Vs. 03.16.23</u>
ICE Arabica Mar 23 (c/lb)	174.30	-5.75
ICE Robusta Mar 23 (\$/mt)	2124	20
Arbitrage Arabica Mar 23 / Robusta Mar 23 (c/lb)	77.72	-6.89

**ICE Arabica:** Arabica failed to extend the rally above 180 which triggered a bout of long liquidation and spread selling. Flat prices remain in the broader 171 to 183 range, while the nearby May/July spread fell to the lowest level of the week. The spread weakness may be related to improved Brazil shipments for March, the slow pace of certified draws, or risk premia selling in front of the approaching index roll. Spec positions are fairly flat which allows them to probe both nearby support and resistance levels. The chart is negative.

**Support:** 171.05, 168.55, 162.50

**Resistance:** 179.90, 182.60, 185.35

**ICE Robusta:** Robusta was sold lower early in the week, but found good support to lift the price back into midrange. The balance sheet will become tight in the coming months, but much of the market is positioned to trade from the long side which has limited follow-through buying on rallies. The chart is neutral.

**Support:** 2093, 2066, 2023

**Resistance:** 2138, 2164, 2208

### Disclaimer

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## Brazil

- **Local Market:** The eroding NY market left the physical in a slow mood. Producers were reluctant sellers into lower prices and exporters were unwilling to pay firmer differentials. Only small volumes changed hands at 2 cents firmer for replacement differentials in Arabica and Conilon
- **Weather:** The summer is officially over and Apr-June brings less rain. Water reservoirs are at long-term historical high levels and soil moisture should be plenty.
- **Export Market:** Shipments remained strong in March but will be smaller than in March 2022.
- **BMF (type 4/5):** K3 222.00
- **Arbitrage BMF/ICE:** KK -6.50
- **Exchange rate:** 5.26

## Colombia/Latin American Milds

- **Colombia:** Quiet internal market as the mitaca is slowly approaching. Rain continues across the coffee regions. Conversations for the new FNC general manager continue, with three final candidates: German Bahamon, Sandra Morelli, and Santiago Pardo. The new manager will be elected on April 27 by the National Coffee Congress. COP: H4865, C 4743, L 4745
- **Guatemala:** During the first part of the week, there was good interest to sell, and good volume changed hands, but with the market movement on Wednesday and Thursday, there was zero selling interest and producers were just delivering what they sold at the beginning of the week. More rains were reported during the weekend, which in some of the higher altitude areas were not well received as ripe cherries fell to the ground.
- **Honduras:** The cooperatives and middlemen struggled to sell coffee as the bearish market development during the week lowered internal prices. Slow and steady demand. Roasters are conservative with their purchases. Weather was sunny throughout all the coffee-producing regions.
- **Costa Rica:** Although there is commercial activity going on, business is slow and a little bit forced. Demand is very shy, and inquiries are few and for small volumes. Unusually consistent rain this week. The flowering is starting.
- **Peru:** The crop has started. In low altitude farms the first cherries of the harvest are being collected. While in medium and high altitude, cherry development continues. Demand and offer are still too far away from each other, so business remains slow.

## Africa/Papua New Guinea

- **Tanzania:** No auction this week, but there should be one next week, in which we expect a lot of grinder quality. Farmers are wrapping up the season and finalizing sales of the remaining coffee of the current season. Farm activities overall progress well and farms are in good condition.
- **Kenya:** The auction volumes are still high with over 30,000 bags on offer weekly. Quality continues to drop, with an increase of Mbuni and Grinder slowly appearing. The average differential has eased up in line with the quality decrease. It has been rainy across the region, with much relief after several dry months previously.
- **Ethiopia:** Official export figures for February, at 277k bags, were the second lowest in the last five years, but were much higher than expected. While January saw only 146k bags shipped, the increase in February was mainly due to uncommitted old crop which found some outlets, as securing new crop commercial coffees at reasonable differentials continues to be difficult for most buyers.
- **PNG:** Another steady week of offers locally. However, buyers are extremely cautious due to the high CBB infestation levels. Yields of good quality coffee will be affected. A small increase in parchment flow as the harvest is slowly starting. Prices remained firm throughout the week.

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## Robusta

- **Vietnam:** Liquidity in the domestic market remains thin with upcountry prices trading in a 48,000/48,600 VND/kg range, while farmers are waiting for 50,000 VND/kg. Exporters continue to cover shorts and the domestic industry is also active. Grade 2 is trading around +10/+20 FOB in bulk for prompt shipment. Industry is in the market to buy spreads for May/Jun onwards as differentials show no sign of weakness and are very firm in the forward months. Weather becoming warmer and dry season stress is starting to be felt on the trees, prompting farmers to irrigate. Currency: 23,500 VND
- **Indonesia:** Basis asalan traded around 33.700IDR/kg to 34.000IDR/kg, it is equal to RCK+90 to K+100 Fob in jute bag of EK1 80 defects. Local shippers are very active buying raw coffee to cover local market demand, followed by others covering FOB sales. Currency IDR traded Monday to Tuesday at Rp.15.372 – 15.349 per 1 USD (Jisdor). The weather is normal with mostly sunny days in Central Java, East Java, and Lampung, while rain is normal to above normal in South Sumatra and Jambi. The current weather supports harvest and post-harvest activities. Farmers in the Java region reported harvesting starting in May/June and peaking in July.

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

	This week		Last week	
Brazil MTGB	ICE Arabica	level	ICE Arabica	level
Colombia Excelso	ICE Arabica	+46	ICE Arabica	+46
Honduras HG	ICE Arabica	+22	ICE Arabica	+24
Kenya AB FAQ	ICE Arabica	+40	ICE Arabica	+40
Vietnam Gr2	ICE Robusta	+20	ICE Robusta	+30
Indonesia Gr4 (max 80 defects)	ICE Robusta	+120	ICE Robusta	+60

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