

Coffee Market Overview

28 October 2022

“a FundSamental coffee market”

- Another week and another sharp sell-off in arabica flat price and notably spreads with robusta following loosely. Long liquidation and increasing non-commercial shorts may be driven by the speculator community starting to price in weaker demand implications of the coming global recession, reducing their long exposure across the softs commodity complex.
- Outside markets remain volatile, with equities spinning from a near \$1 trillion weekly wipe-out in top tech stocks, outweighing hopes of a slowdown in Fed and ECB rate rises and news that the US economy is not in recession yet (US Q3 GDP 2.6% versus 2.4% expected).
- The Brazilian real also fluctuated widely too, ahead of the too-tight-to-call race between Lula and Bolsonaro this weekend, and a still-strong US dollar.
- That, alongside the plummeting terminal prices, saw Brazilian producers shy away from selling any significant volume, as profit margins slip from recent historical highs. Forecast for rains to continue over the next 10 days across most regions but volumes decreasing w-o-w. Some isolated, regional, incidences of cooler temperatures and hailstorms continued although damage to flowering minimal.
- In Colombia the collapse in the peso to 5,000 COP/USD supported a fair amount of business activity as the main crop harvest advances, despite ongoing rains.
- According to ICAFE, Costa Rica's coffee production will grow 11.5% during the 2022/23 season, boosted by new plantations and a larger crop following the biannual cycle.
- ICE arabica certified stocks fell further to multi-decade lows of 385k bags, while pending gradings increased to 56k bags. ICE robusta certs also fell to 8.98k lots.
- We estimate the net spec position in arabica has moved to a net short of -7k lots for the first time in two and similarly the robusta net spec has switched to a net short of -3k lots.

Price Comparison

	<u>27.10.22</u>	<u>Change Vs. 20.10.22</u>
ICE Arabica Dec 22 (c/lb)	178.85	-12.20
ICE Robusta Jan 23 (\$/mt)	1878	-166
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	93.66	-4.67

ICE Arabica: The brutal selloff continues, as price has fallen to new lows for 12 straight days. The bullish fundamentals of a tight balance sheet and falling certified stocks have been replaced by a stronger macro seller. Coffee has been run over by larger macro spec sellers reducing risk, trading on different economic fundamentals, and entering offsetting risk premia trades where softs are sold and energy is bought. The chart is negative, oversold and continues to look for a hero.

Support: 174.50, 168.65, 164.65

Resistance: 190.75, 194.60, 200.75

ICE Robusta: Robusta prices also gave up during the week, falling to the lowest level since August 2021. Open interest continues to reduce as participants limit exposure. Robusta lacks the spec participation of arabica, but the negative price action is similar. The chart is negative.

Support: 1827, 1746, 1700

Resistance: 1958, 2056, 2113

Brazil

- **Local Market:** despite futures continuing to slide, producers did not completely back away, with some patchy selling into the price drop. Despite the squeeze on producer margins (approx. -R\$200), the BRL price is still profitable for producers who did not suffer the drought and frost. Conilon remains the first and best option for local industry with demand stable.
- **Weather:** Some hailstorms reported in South Minas and Zona da Mata. A good assessment of the blossom set will only be possible towards the end of the year for the 2023/24 crop outlook.
- **Economy / Politics:** The USD traded up from 5.15 to 5.40 and down to 5.30 again. Sunday is election day - currently neck and neck. Something to watch out for over the course of the weekend.
- **Export Market:** Some increased interest on the fob market for q1 shipments, however exporter and buyer price ideas remain apart.
- **BMF (type 4/5):** Z2 \$ 213 (-12)
- **Arbitrage BMF/ICE:** Z/Z -19 (+1)
- **Exchange rate:** Official 5.30 (-2%)

Colombia/Latin American Milds

- **Colombia:** Fair amount of business was reported over the week as the main harvest picks up. The Peso weakness seems to be one of the main drivers, reaching levels of over 5,000 COP/USD. Heavy rains received this past week leading to floodings across regions of the country, main affecting: Antioquia, Northern province states, Valle del Cauca and Cundinamarca. COP: H5003 L4800 C4800
- **Guatemala:** Exports during the 21/22 season were 9.93 % lower compared to the 20/21 season. Coffee mills in the Oriente region will open their doors to start processing coffee and finish fine-tuning their machinery next week. Coffee from the lower areas started flowing and quality looks promising. Good demand was felt, but differentials remain firm which hindered business.
- **Honduras:** Business is getting a bit more active; demand predominantly is for certified coffees. The flow internally is only slowly picking up. Dry and sunny weather prevailed in most producing regions.
- **Costa Rica:** The demand is back. Good business has been reported into the market decline at firm differentials. Transition out from rainy season seems to take place as summer-like days become more common. This will encourage cherry ripening as humidity lowers and sunny days take over.
- **Peru:** Market activity was reduced to shipping coffee and covering shorts. Fob demand was very small due to elevated differentials. Spot coffees moved into focus.

Africa/Papua New Guinea

- **Kenya:** The last auction of the early crop will be held next week with only 4,400 bags of low grades on offer. Weather conditions remain dry and drought stress is increasingly evident across the Central & Eastern coffee growing regions. Some rains are forecast for the next two weeks.
- **Tanzania:** After three weeks without auction, the sixth of this year will take place on the 3rd of November in Mbozi, Songwe. Washing stations in Mbinga have closed now as the harvesting has come to an end. In general, farmers have started their post-harvest activities in preparation for next crop.
- **Uganda:** Harvest is advancing well, and good volumes are flowing in both Mt. Elgon and Rwenzori, regions. Local prices have come down, but differentials have firmed.
- **Ethiopia:** Red cherry prices are averaging around ETB 35/kg in the Southwest but are much higher at ETB 50/kg in the South (Sidama, Guji, Gedeo). A number of exporters are slowing down their buying of red cherry via their akrabi partners, especially as they begin to sense that the expected demand and price signals from the international market point to lower numbers compared to last year. New crop offers are expected in the coming few weeks.
- **PNG:** Little activity with some farmers who have held back coffee are now releasing their leftovers at lower local prices. Visual inspection in the upper Highlands indicates a healthy fly crop harvest towards the early part of the new year. Differentials locally have firmed considerably with the lower trending terminal market.

Disclaimer

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Robusta

- **Vietnam:** FAQ is trading around 42,000 VND/kg upcountry, having fallen from the peak of 50,000 VND/kg last month. With majority of new crop sales so far above 44,000 VND/KG, we have entered a new price territory where differentials are starting to firm even though the weaker VND has softened the impact for the producers. Grade 2 is trading around -100 FOB in bulk. Industry demand continues to increase as the crop gets closer. Weather: mainly dry and sunny with some intermittent showers as the rainy season gradually transitions to the dry season. Currency: 24,820 VND
- **Indonesia:** Basis asalan traded around 30,300/30,800 IDR/kg, equivalent to F+65/+90 basis 80 defects. Volume asalan Monday to Thursday was 2k mt. Price indications from local exporters around +140/+160 FOB for 80 defects. Weather: above normal to excessive rains in South Sumatra and Java this week. Currency: 15,616-15,573 IDR/USD

Origin differentials for November onwards shipment cts/lb FOB

	This week		Last week	
Brazil Swedish	ICE Arabica	-15	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+58	ICE Arabica	+58
Honduras HG	ICE Arabica	+32	ICE Arabica	+31
Kenya AB FAQ	ICE Arabica	+62	ICE Arabica	+60
Vietnam Gr2	ICE Robusta	-100	ICE Robusta	-80
Indonesia Gr4 (max 80 defects)	ICE Robusta	+140	ICE Robusta	+70

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