

Coffee Market Overview

30 September 2022

“Pound Pounded”

- Markets are ending the third quarter of 2022 in turmoil. The ascent of King dollar remains unchallenged, causing almost all other asset classes to end the quarter in the red.
- Macro remained broadly negative this week, with UK’s controversial fiscal plans rattling investors and the British pound falling to record lows and gilt yields soaring.
- Brazil’s Presidential election will be held on Sunday, with Lula still polling high. The results could increase volatility in the BRL next week, especially if Bolsonaro queries the election results.
- Despite the macro meltdown, coffee futures made occasional bursts to the upside this week, driven by the continued inversion in spreads in response to further declines in certified stocks.
- As expected, good rains arrived in Brazil arabica regions, although conilon areas were dry. Forecasts indicate good rains for all regions except for Bahia over the next week.
- The 2022/23 harvest begun in the lower-lying altitudes of Honduras, although the quality is poor and heavy rains over the week are raising concerns over coffee damage, and a higher incidence of leaf rust as well damage to infrastructure.
- Crop harvesting and flow in PNG is coming to an end for the season and the Peru crop is now complete too.
- In Peru, cumulative exports for April-July 22 totalled 751 k bags, 50% higher y/y. The increase over the year reflects logistical issues which slowed shipments during the initial months of 2021-22 before recovering later in the season.
- ICE certified arabica stocks fell to 23-year lows of 435k bags, while Robusta certs fell to 9.37k lots
- We estimate the net spec position in arabica is +23k lots and that in Robusta at + 23k lots.

Price Comparison

	<u>30.09.22</u>	<u>Change Vs. 23.09.22</u>
ICE Arabica Dec 22 (c/lb)	225.7	2.15
ICE Robusta Nov 22 (\$/mt)	2182	-56
Arbitrage Arabica Dec 22 / Robusta Jan 23 (c/lb)	126.73	4.69

ICE Arabica: Arabica is bouncing around with the macro gyrations, which makes for a very choppy chart. The strong USD, negative macro environment and realized rains in Brazil, provide the negative arguments while drawing certified stocks, firm FOB differentials and disappointing new crop yields in Brazil, provide fundamental support. The chart is a developing story within a flag formation.

Support: 217.65, 211.65, 200.00

Resistance: 230.00, 235.40, 242.95

ICE Robusta: Robusta broke through support at \$2200, and traded at the lowest level since mid-August. Nearby physical demand has been consistent reflecting current crop tightness and increased incorporation of robusta in blends, but many traders have become cautious with an ever-changing macroeconomic environment. The chart is negative.

Support: 2136, 2084, 2021

Resistance: 2216, 2252, 2298

Brazil

- **Local Market:** Arabica producers continue to sell strictly scale up with limited volumes on offer. A strategy that worked well so far this season. BRL curve is no longer offsetting the market inversion, making forward offers less attractive.
- **Weather:** Widespread showers triggered flowering and will continue to do so in the weeks to come. Close attention on October and November rains to continue blossoms and set.
- **Economy / Politics:** Election time coming up. Lula is leading the polls for now. Potential instability in the weeks to come. BRL weakened almost 5% on the back of a strong dollar.
- **Export Market:** Better volume offered for nearby shipment, but a lack of buyers. Forward offers are less interesting keeping various buyers on the side line for now. Shipments run OK and container availability remains in focus for now.
- **BMF (type 4/5):** Z2 \$ 262 (-2)
- **Arbitrage BMF/ICE:** Z/Z -27.75 (-4.00)
- **Exchange rate:** Official 5.40 (-4.75%)

Colombia/Latin American Milds

- **Colombia:** Pressure was felt on the nearby position and differentials reflect the market structure, further out differentials felt less pressure. Very low volumes changing hands. In between crop period; a lot of uncertainty in front of the main crop remains and wet weather prevails across the coffee axis. COP: H4575 L4365 C4525
- **Guatemala:** During the past two weeks, above normal rains have been reported in coffee producing regions, saturating soils, with plants starting to show some signs of stress due to the situation. More such torrential rains will start damaging the next crop. Infrastructure damages have been reported in various locations. Good new interest noticed this week.
- **Honduras:** First coffees are picked in the lowest areas, but mostly of damaged and low quality. Very heavy rain felt throughout the country. Producers are worried about the damage of the roads and more rainfalls. Although active price discovery is taking place, little business has been reported.
- **Costa Rica:** No substantial changes, neither in the internal, nor external markets, compared to last week. Roasters remain on the side line and producers are holding off from selling.
- **Peru:** Internal prices remain elevated and drive away fresh business. In some areas first blossoming has been reported, weather was predominantly sunny.

Africa/Papua New Guinea

- **Kenya:** The last auction of the coffee year took place this week with mostly Grinders and FAQ quality on offer at stable differentials. The main crop harvest is slowly commencing while the weather is dry and temperatures rising.
- **Tanzania:** Kahawa Festival is taking place today in Moshi, an event for farmer and Amcos to showcase their products. Peak harvest continues in the North, as in Mbinga, where a few Amcos have starting milling coffee. Mbeya and Mbozi have concluded their harvest with parchment deliveries still ongoing. The 4th auction of the year took place this week in Mbinga with moderate reserve prices and 12` 146 bags on offer, mostly FAQ and grinders. Weather in the North is cold and dry, while the south saw rainy and sunny days, depending on the region.
- **Uganda:** Volumes of Cherry and Parchment continue to increase in volumes in Mt Elgon and remains strong in the Rwenzoris, both at stable prices. Semi-washed coffee is finding its way to Kampala now in larger volumes. Quality is remains promising. Less rain this week and slightly drier although still cloudy overall.
- **Ethiopia:** Weekly minimum prices for washed coffees dropped 6 to 9 cents, with Naturals revised up by 2 cts/lb across the board. FOB price ideas remain largely unchanged and are still significantly above the minimum price. The harvest in the South is slowly starting with some instances of CBD being observed in Southern Gedeo. Most wet mills in the South (Sidama, Gedeo) are expected to start operations in the first 2 to 3 weeks of October. The rain season is slowly coming to an end, but daily rains continue in most parts of the coffee growing areas.
- **PNG:** The end of the season is coming closer and the flow of cherry and green is reducing in all regions, with the most remaining green of good quality coming from the EHP. Prices are still attractive to buyers and sellers. A mix of wet and dry days through the week. Good development in plants since the blossoms in July.

Disclaimer

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Robusta

- **Vietnam:** Upcountry prices continue to be bid in a 49,000-50,000 VND/kg range with small volume traded. New Crop FAQ prices bid around 47,400-48,000 VND/kg. Grade 2 is trading around -40 FOB for prompt shipment. still some nearby demand from industry. Weather: strong winds and heavy rains along highlands areas due to Noru storm. Currency: 23,744 VND
- **Indonesia:** Basis asalan traded around 32,000/32,300 IDR/kg equivalent to F-80/-60 basis 80 defects. Volume asalan Monday to Thursday was 5.2k mt. Offers for shipment Oct to Dec between -10/-20. Weather: normal rain in the main Robusta area in West Lampung while normal to above normal rains in South Sumatra. Currency: 15,119-15,247 IDR/USD

Origin differentials for October onwards shipment cts/lb FOB

	This week		Last week	
Brazil Swedish	ICE Arabica	-18	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+71	ICE Arabica	+75
Honduras HG	ICE Arabica	+35	ICE Arabica	+34
Kenya AB FAQ	ICE Arabica	+65	ICE Arabica	+65
Vietnam Gr2	ICE Robusta	-40	ICE Robusta	-40
Indonesia Gr4 (max 80 defects)	ICE Robusta	-20	ICE Robusta	-50

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