



Coffee Market Overview

19 April 2024

“Rolls Royce, Rolex, Robusta”

- Safe havens including the Vix “fear index”, gold, Swiss franc, US treasury yields, and the US dollar Index all rose upon fears of an escalation in the Middle East, with crude oil also spiking higher over the week.
- But while attention was understandably on unstable geopolitics, robusta coffee prices reached all-time record highs on its own set of bullish fundamentals, perhaps making robusta the new trending luxury item.
- The tightness in robusta has spilled over to arabica, which still needs to buy demand from traditional robusta users to solve the deficit.
- The BRL has depreciated sharply in the past week, touching 5.30 to the US dollar. This, along with high terminal prices, has encouraged Brazilian hedging of the 24/25 conilon crop, while the current 23/24 crop liquidity slows with unsold volumes few and far between.
- Vietnam weather remains dry and hot, resulting in low water reservoir levels (which may impact irrigation activities) and a rising incidence of mealy bug, further impacting the 24/25 crop potential negatively.
- The start of the Indonesian robusta harvest has been slow with the peak flow not expected to begin until May. Average farm gate prices across regions ranged between 40 to 62k this week with reports of prices reaching 70k IND, in Bandar Lampung, a record high.
- Farmers in Colombia have been protesting to push both the FNC and the government to improve internal prices. Important rains are awaited. Water reservoirs are at minimum levels, and several cities (Including Bogotá) are facing water rationing.
- ICE arabica certified stocks fell to 635k bags, while robusta certified stocks reached 3,544 lots.
- We estimate the net fund position in arabica currently stands at +56k lots, while that in robusta is at +43k lots.

Price Comparison

	<u>18.04.24</u>	<u>Change Vs 11.04.24</u>
ICE Arabica May 24 (c/lb)	231.10	13.75
ICE Robusta May 24 (\$/mt)	4062	272
Arbitrage Arabica May 24 / Robusta May 24 (c/lb)	46.85	1.41

ICE Arabica: Arabica prices rallied to the highest level in 25 months. One month ago, the July contract traded below 180 cents. On Thursday morning, the July contract traded 6.5 cents higher, shocking industry buyers and stressing financial conditions of trade houses. System funds added to their long positions while physical business slowed as roasters reviewed margin requirements and traders assessed increased risks at origin. Perhaps the rally can pause after FND but increased sell side liquidity will require liquidation from spec longs. The chart is bullish.

Support: 229.55, 219.75, 211.85

Resistance: 245.40, 250.00, 260.45

ICE Robusta: The tight robusta balance sheet marches on as prices trade to all-time highs. Three straight years of robusta deficits have reduced global stocks while dry weather in Vietnam threatens more stress to future supply. Differentials, with the exception of conilon, are at historical highs. The solution to the robusta deficit remains for blend incorporation and consumer demand to move away from robusta and into arabica but the change is not happening fast enough. The chart is bullish at all-time highs.

Support: 4000, 3800, 3600

Resistance: 4292, 4500, 5000

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Brazil

- **Local Market:** The price explosion continues this week. Prices for arabicas traded in a 1,300 – 1,500 R\$ range across the quality spectrum from good cup to extra fine cup. While conilons prices reached records trading over 1200 R\$/bag. Low-quality arabicas for local consumption traded around 100 R\$ under conilon. Good volumes for arabica new crop for forward deliveries were traded over the week, and shippers have been lowering their ideas on differentials. Shipments during April are running strong. Local industry still buying hand to mouth. Origin stocks are reaching very low levels, new crop conilons have started arriving.
- **Weather:** Conditions remain favourable.
- **Economy / Politics:** USDBRL broke out of the previous range and approached 5.30 driven by a strong dollar and increased macroeconomic risk.
- **External Market:** Good volume reported traded, both in Conilon and Arabica.
- **Arbitrage BMF/ICE:** UU - 16:00 (+ 0.50)
- **Exchange rate:** 5.26 (deval 3.50 %)

Colombia/Latin American Milds

- **Colombia:** Farmers from different regions (Coffee Axis, Antioquia, and Cundinamarca) chose April 17th as their day to strike, blocking roads and highways, as a way to push both, FNC and the National Government to improve the internal prices. The activation of the price stabilization fund has been the general claim of the farmers. On the other hand, different associations of farmers from Huila Province have confirmed that they won't participate in any strike, as they are now start harvesting. Important rains are awaited. Water reservoirs are at minimum levels, and several cities (Including Bogotá) are facing water rationing. This week's rallies have scared possible buyers.
- **Guatemala:** The flow of coffee has decreased considerably during the past week; mills are starting to close and the ones that remain open will stop receiving coffee by the end of the month. Producers are waiting for the start of the rainy season to start the fertilization process. Currently, producers are finishing the pruning and shade management activities. Temperatures have increased during the, rain is forecast this weekend.
- **Honduras:** The crop has concluded, farmers are now focusing on the next crop: fertilizing and farm management. Middlemen are still trying to commercialise at very high levels despite market value. Despite the market rally differentials remain firm. The weather has been hot and there has been rainfall which contributed to the flowering. Business remains minimal and only some inquiries for small nearby demand.
- **Costa Rica:** Unlike other mild origins, the market rally did not stop the demand and it has been very strong throughout this week. The high volatility and risky environment contributed to the roasters relying on trustworthy options to re-stock. Most inquiries focused on immediate or prompt shipments. The weather has been windy, dry, and the hot conditions have been aggravating the country's drought.
- **Peru:** Low-altitude coffee regions are starting the second harvest. Medium and high-altitude fields will start their first harvest next week. Rainfall was moderate across the coffee regions. Limited demand noted this week.

Africa/Papua New Guinea

- **Kenya:** Differentials at the better end of the quality spectrum dropped during the week. Lower qualities have remained resilient and have maintained their value against the arabica futures rally. The milling backlog is still being resolved and we anticipate the sale of the main crop season's coffee to extend into May/June.
- **Ethiopia:** The rally in the market has made Ethiopian commercial naturals very attractive, as the internal market stays relatively stable due to limited funds being made available by local banks. There is a risk of overselling by some shippers leading to performance issues.
- **PNG:** Arrivals of the new crop continue to flow and increase in volume. The competition for cherry and parchment has increased in the upper Highlands as more mills are becoming active. The arabica futures rally has excited a few buyers, lifting the local prices. The quality looks good at this stage while the crop continues to develop into the main harvest.

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Robusta

- Vietnam:** Local market prices remain on steroids pushing outright values to 126,000 VND/kg as shorts still need to be covered. Liquidity remains very thin on the back of low stocks. Most shippers remain sidelined as FOB differentials struggle to keep up with the costs of replacement. G2 traded N+750 to N+850 FOB in bulk. Now offered at N+900 to N+1000. Some roasters added cover while others weighed up alternative origins.
Weather: hot, dry with isolated showers.
- Indonesia:** Basis asalan traded between 70,000/73,000 IDR/kg. the asalan volumes reported Monday to Thursday was 2,772 mt, 50% lower y-o-y indicating the delayed start to the harvest. Offers for 80 defects range between +520 and +400 FOB this week for May and June shipments.
Weather: Average to above average rains in the main South Sumatra regions, good rains in Lampung, and above normal rains in East Java.
Currency: 16,167-16,177 IDR/USD.

Origin Differentials for May Shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-15	ICE Arabica	-15
Colombia Excelso	ICE Arabica	+14	ICE Arabica	+14
Honduras HG	ICE Arabica	+5	ICE Arabica	+5
Kenya AB FAQ	ICE Arabica	+35	ICE Arabica	+35
Vietnam Gr2	ICE Robusta	+950	ICE Robusta	+700
Indonesia Gr4 (max 80 defects)	ICE Robusta	+500	ICE Robusta	+700

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