



# Coffee Market Overview

14 June 2024

## “Deja-Brew”

- Macro was a key market driver this week across the commodity complex, with softer than expected US inflation data sparking a risk-on mood midweek. But as the Fed left interest rates unchanged and pencilled in just one rate cut this year, markets subsequently sobered down.
- The BRL was weak against the USD throughout the period though, focusing instead on Brazil’s stubbornly high fiscal debt burden and how the government hopes to tackle this.
- The combination of these factors caused coffee futures to tumble lower week-on-week, with speculators taking profit as well as some origin selling appearing again which has been a cyclical pattern over the past two months.
- The week saw reduced rainfall w/w across Vietnam’s robusta regions but good soil moisture should support the cherries entering the fruit development stage for the 24/25 crop.
- In Brazil, exporter demand continues to outpace producers’ offers, keeping arabica differentials elevated whereas conilons are trading more actively as over 60% of the crop is now fully harvested and the flow is improving aiding industry to cover their nearby shorts.
- Brazil’s green coffee shipments reached 4.4 mio bags in May almost double last year’s, according to Cecafé. arabica coffee exports rose 59% y/y to 3.2 mio bags, while conilon shipments surged 6 times y/y to 868k bags.
- Indonesian weather is favourable for the harvest of the current crop. The flow of arrivals has improved compared to May and Sumatra farmers have begun their second round of picking.
- Weather in Central America has been very dry, but Honduras and Guatemala saw improved rains over the week which has helped reduced the moisture stress on coffee plants.
- ICE arabica certified stocks rose to 808,067 bags, while robusta certified stocks rose to 5,769 lots.
- We estimate the net spec position in arabica is +42k lots, and that in robusta is +25k lots.

## Price Comparison

	<u>13.06.24</u>	<u>Change Vs 06.06.24</u>
ICE Arabica September 24 (c/lb)	226.25	-7.10
ICE Robusta September 24 (\$/mt)	4093	-201
Arbitrage Arabica September 24 / Robusta September 24 (c/lb)	40.50	2.00

**ICE Arabica:** The September contract traded lower during the week after failing to clear resistance above 238.70. The April 18 high at 245.80 provides another major resistance point that must be cleared to extend a rally. Industry scale down buying support was noted below 220. Price action has been choppy, but the chart is neutral.

**Support:** 216.10, 209.20, 191.00

**Resistance:** 238.70, 245.40, 260.45

**ICE Robusta:** The September contract retreated off the contract high at \$4,394. Scale down industry support appeared above \$4,000. Historically high price levels have created a very choppy market with wide daily price ranges and chart points with little order depth. Conilon stocks are building in certified inventories with over 1,100 lots approved so far in June. The chart is neutral but needs to hold support above \$4,000.

**Support:** 4000, 3934, 3650

**Resistance:** 4243, 4394, 4575



## Brazil

- **Local Market:** The liquidity pattern remains unchanged with exporter's demand outpacing offers from producers. Internal arabica differential remain on the firm end. Activity in conilon has picked up as the crop is advancing to above 60% harvested. The arabica screen size is improving slightly as the crop picks up but is well below historical levels. Favourable weather allows for efficient harvesting and drying in most areas.
- **Weather:** Conditions remain excellent for harvesting of current crop, extended dry weather will need to be watched for the 25/26 crop development. No forecast of frost over the next 10 days.
- **Economy / Politics:** The BRL slipped to 5.40+ on concerns about Brazil's fiscal deficit and how to reduce it, combined with a relatively strong USD.
- **External Market:** Active nearby demand for a wide range of qualities and screens.
- **Bolsa São Paulo (Type 4/5):** Sep (276) -8 UU
- **Arbitrage BMF/ICE:** - 17.75 (+0.75)
- **Exchange rate:** 5.40 (deval 2.75%)

## Colombia/Latin American Milds

- **Colombia:** Limited business this week, however a higher interest for supremo and requests for prompt shipments noted. Rain across the country this week and risk of heavy rainfall in the forecast for next week.
- **Guatemala:** Producers have started fertilizing activities with the arrival of the rainy season, but the late rains have caused irreversible damage to next year's crop in many regions. However, it's still too early for a final assessment. Despite the late start, heavy rains—three to four times the normal amount for May—have been reported across coffee-producing areas.
- **Honduras:** Coffee is no longer available in the country, where temperatures have stayed around 35°C. Scattered rains and thunderstorms are occurring, with more precipitation expected over the weekend. Farms are experiencing water stress like last year, which could affect the upcoming harvest. Currently, there is only demand for low-grade coffee, with some interest in organics, but little to no availability. There is also interest in EUDR coffee for the next crop, but not currently offered.
- **Costa Rica:** Currently, 86% of the country's coffee is sold. High-quality coffee sales are slow as mills await final yields, while mid to lower-range coffees are being sold to capitalize on current futures prices. There were some inquiries for the current crop, but little business was finalized during the week. Two of Costa Rica's weather stations have already exceeded the average June rainfall within the first 10 days, prompting an orange alert for the Central and Pacific regions.
- **Peru:** Some demand for certified coffees noted. The coffee harvest is nearing its peak; the northern area low-altitude regions are at peak harvest, while medium and high-altitude areas are still entering peak harvest, expected to intensify in June and July. Overall, harvesting in northern Peru is 30% complete and 50% complete in the central area. The weather has been mostly sunny with moderate rainfall across all growing regions.

## Africa/Papua New Guinea

- **Kenya:** The main crop season end is now in sight; the crop has been milled and the last of the coffee will be commercialized within the next 3 weeks. Quality remains a mixed bag, the usual end-of-season lower grades are mixed in with some excellent lots that have perhaps missed the market once or twice already. The early crop will be hot on the heels and is currently coming off the drying tables to the mills, we expect a good early crop and anticipate some interesting coffees from the Eastern province which has been well watered this year.
- **Tanzania:** Cherries continue to ripen. Only 10% of the coffee processing units are open in Mbinga, as the harvest usually begins later due to its geographical location and cold weather. Similarly, farmers in the highlands of Kilimanjaro have not yet started harvesting.
- **Ethiopia:** With liquidity in the Ethiopian credit markets being at an all-time low, most exporters continue to struggle to pay for coffee. The domestic market's capacity to absorb coffee keeps internal market prices supported, while the Ethiopian Coffee & Tea Authority has issued a statement saying this year's coffee exports are a record for the country, with just 4.2 mio bags shipped in the first 11 months of the fiscal year.
- **PNG:** A busy week of sourcing as most exporters cover their existing shorts. Farmers are aware that the remaining crop is well sought after and search for the best prices. Hence, internal prices are on the rise, and we expect differentials to firm further. Demand from roasters remains high.



## Robusta

- **Vietnam:** The internal market is quiet, with limited sales at around 120,000 VND/kg upcountry. Activity is slowing as the off-season begins. Rain is gradually increasing, and farmers are concentrating on fertilizing and rejuvenating the farms. Grade 2 coffee trades around U+850 FOB, with limited industry activity and a few buyers focused on July-September shipments. Exporters are selling cautiously, primarily from existing stock. Logistics are functioning well, but spot freight rates to Europe are rising.
- **Indonesia:** Basis asalan traded around 80,000 IDR/kg to 82,000 IDR/kg. The volume of asalan from Monday to Thursday was 13.1k MT, 7% higher than last week. Offers for 80 defects traded between +900/+970 FOB for July shipment. Weather: Favorable weather for harvest and post-harvest activities of the current crop. Currency: 16,290-16,286 IDR/USD.

## Origin Differentials for July Shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-17	ICE Arabica	-16
Colombia Excelso	ICE Arabica	+16	ICE Arabica	+14
Honduras HG	ICE Arabica	+13	ICE Arabica	+13
Kenya AB FAQ	ICE Arabica	+25	ICE Arabica	+25
Vietnam Gr2	ICE Robusta	+850	ICE Robusta	+850
Indonesia Gr4 (max 80 defects)	ICE Robusta	+950	ICE Robusta	+850

