



Coffee Market Overview

21 June 2024

“Bean up, BRL down”

- Another week, another rally. Coffee prices pushed higher again, with robusta hovering just below the \$4,394/t peak set on June 6.
- Strong demand from exporters, coupled with sold-out Vietnamese coffees and below-trend rainfall in Brazil were behind the bullish move.
- The steady monthly depreciation of the BRL halted briefly yesterday, following a unanimous decision by COPOM to keep Selic rates at 10.5% and stop the easing cycle. But ongoing concerns over the government's fiscal situation remain a drag on the currency.
- Brazil's strong conilon shipments pace is testing the country's logistics; empty containers are not easy to get, and port capacity remains tight.
- Vietnam's coffee exports in the first five months of this year were down 5.8% from a year earlier, according to government customs data.
- Weather conditions in Brazil remain good for harvesting, which is near the 45% mark, although chatter continues over the small screen size of beans. As the dry weather extends, it could pose risks for next year's crop.
- Global coffee production is projected to increase by 7 mio bags, or 4.1%, in the new Oct-Sep season, according to the USDA's latest biannual report.
- Excess rain in some Central/South American origins persists in June, affecting infrastructure and agriculture.
- Certified arabica stocks have increased to 831.6 bags, while robusta certs are at 5.95k lots.
- We estimate the net spec position in NY is at 44k lots, while that in London is at 33k lots.

Price Comparison

	<u>20.06.24</u>	<u>Change Vs 13.06.24</u>
ICE Arabica September 24 (c/lb)	230.35	4.10
ICE Robusta September 24 (\$/mt)	4176	83
Arbitrage Arabica September 24 / Robusta September 24 (c/lb)	40.95	0.45

ICE Arabica: Arabica traded up to a 2-week high but ran into increasing origin selling as prices approached resistance at 238.70. Another important resistance level is the April 18 high at 245.80. The structure remains inverted reflecting the market's attempt to pull selling forward. Industry has rebuilt paper cover to more comfortable levels but scale down roaster support thickens at 220. The chart is neutral, but the price action is choppy and quick to turn.

Support: 220.00, 209.20, 191.00

Resistance: 238.70, 245.40, 260.45

ICE Robusta: The September contract ran into good scale down industry support near \$4000 which allowed prices to settle the week in the middle of the nearby range. 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 growing in certified inventories but all other robusta origins are trading at FOB differentials far above tender parity. The chart is neutral.

Support: 4000, 3920, 3661

Resistance: 4230, 4394, 4575



Brazil

- **Local Market:** Harvesting is progressing well, and more coffee has started coming in, aided by attractive prices and weather. Despite that, local and new export demand exceeds offers from producers and differentials have remained firm despite the market rally and weak BRL. The problem with small beans persists and the premium for big screens remains staggering. June exports are progressing well but will fall behind the number for May. Local industry must compete with external demand for conilons and show a lot of flexibility on low-grade arabicas.
- **Weather:** Excellent conditions for harvesting and drying continue. No risk of cold front so far.
- **Economy / Politics:** The divergences between the government and the Brazilian central bank are brewing. Lula is asking for a lower policy rate which the central bank is refusing to deliver given the high inflation caused by fiscal expansion. The market doesn't like it nor does the market like the unresolved fiscal problems. All this is weighing on the BRL trading toward 5.50 vs the USD.
- **External Market:** Active demand for the second half of the year.
- **Bolsa São Paulo (Type 4/5):** Sep (280) +4 UU
- **Arbitrage BMF/ICE:** - 18.75 (-1.00)
- **Exchange rate:** 5.44 (deval 0.75%)

Colombia/Latin American Milds

- **Colombia:** Despite the volatility of the market this week, internal prices increased, reaching 2 million peso/carga - driven by a strong USD. Coffee is flowing in the south as mitaca continues and the weather conditions have been favorable looking forward to the next crop. Quality is still a challenge for the mitaca this year and yields are not improving at the expected rate.
- **Guatemala:** Growing interest in new crop offers, but meeting prompt shipment requirements remains challenging. Reports on infrastructure issues due to recent heavy rains. The main road to the Pacific Coast (where Puerto Quetzal is located) is closed due to a landslide that blocked transportation. The reopening may take up to four weeks. Intense rains continue across coffee-producing regions, with more expected.
- **Honduras:** Currently, there is still no coffee available. Demand is currently limited to low grades. Interest in EUDR coffee for the next crop exists, but uncertainty about availability remains. The temperatures have dropped below 35 degrees Celsius. Scattered rains and storms are expected throughout the month. Farms experiencing water stress may impact the upcoming harvest.
- **Costa Rica:** Commercial activity has been intermittent this week while demand remains constant. Some roasters seek higher quality coffee, but high-end coffees are not currently available. Origin efforts focus on fast exports. Lower-quality yields create an export bottleneck. Excess rain persists in June, affecting infrastructure and agriculture. Coffee farms face nematode and humidity-related diseases attacking roots, unusual for this time of year.
- **Peru:** Demand for certified coffees was seen this week. The Northern and low-altitude region is approaching the end of its harvest peak, while the central zone is currently at an average of 50% harvested. This week, the central zone has experienced an average of three days of light rain; while the northern zone saw sunny days of medium to high intensity, with only two days of moderate rainfall.

Africa/Papua New Guinea

- **Kenya:** The main crop season is now in its final stretch, with the auctioning of coffee scheduled to end on 2 July. The quality is now a mixed bag of grinders, Mbuni, and some nice coffee that is coming back to market for a 2nd/3rd time. The early crop looks promising. Lower altitude regions have already dried their parchment and will begin mill deliveries soon.
- **Ethiopia:** Local banks once again are severely slowing their loan disbursements as the fiscal year-end approaches. This continues to put a major constraint on most exporters. A new bill has been introduced in parliament to allow international banks to apply for a banking license in Ethiopia. In another first, the National Bank of Ethiopia (the country's central bank) is being re-established as an independent entity.
- **PNG:** Fierce competition in the internal market for the little flow of main crop still available. The sourcing share amongst exporters is reportedly down. Consequently, the differentials internally are firming almost daily, while the external demand remains strong.



Robusta

- **Vietnam:** Upcountry prices traded around 120,000 VND/kg during the week in low volume as farmers are well sold. G2 is trading at U+850/+900 FOB in bulk. A few industry participants keep checking prices and adding some cover for Q3. New crop interest is also seen but trade is limited for now. Weather: Rainfall was light, increasing towards the end of the week. Currency: VND 25,440.
- **Indonesia:** Basis asalan traded around 81,000/83,000 IDR/kg. Volume asalan Monday to Thursday was 8,245k mt. Offers for 80 defects around U+950 FOB for July and August shipments. Weather: Normal weather in most of the coffee regions in South Sumatra. Currency: 16,368-16,420 IDR/USD.

Origin Differentials for July Shipment cts/lb FOB

	This week		Last week	
Brazil MTGB	ICE Arabica	-17	ICE Arabica	-17
Colombia Excelso	ICE Arabica	+16	ICE Arabica	+16
Honduras HG	ICE Arabica	+13	ICE Arabica	+13
Kenya AB FAQ	ICE Arabica	+30	ICE Arabica	+25
Vietnam Gr2	ICE Robusta	+900	ICE Robusta	+850
Indonesia Gr4 (max 80 defects)	ICE Robusta	+950	ICE Robusta	+950

