DRWakefield

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2022 Overview Market Report

Good day. Welcome to the DRWakefield 2022 roundup market report. Forget your Spotify wrapped, Strava Year in Sport and BeReal Recap, this is the 2022 overview you've been waiting for!

<u>NY C:</u>

2022 began fittingly with the market opening at 222 c/lb, a figure that now seems shockingly high, but was well within normal range for the first 9 months of the year. Despite an initial bullish run, the overall trend for the year was bearish, welcomely so for many roasters.

9 February saw the high point of the year, with the market just bumping over the 250 c/lb mark at 250.35 c/lb, and remained above 240 c/lb for much of the month. The upward movement was pushed by reports of dwindling certified stocks, and bolstered by first notice day for May-22 terminal. The decrease in certified stocks continued to be a trend for much of the year, dipping to historic lows in early November at less than 400, 000 bags, for context, at the same time in 2021 there were more than 1,000,000 bags. In simple terms this meant that there was generally little coffee in circulation with people drawing down from the certified stocks, and more coffee not being certified. This lack of availability was part of what kept the NYC market over 200 c/lb for the first three quarters of the year.

However, this peak was short lived. The devasting news of the Russian invasion of Ukraine wreaked havoc in markets across the globe, and coffee was no exception. On 24 February, the first day of the war, the NYC lost almost 9 c/lb, and continued on this bearish trend until mid-March, where the market brushed the 200 c/lb level. The shocks that reverberated through commodity markets were due to Russia being one of the biggest exporters of not only oil, but also potash, wheat, barley, palladium and platinum to name but a few, and with the sanctions which have been imposed on the country, the balance of supply and demand has been severely disrupted. Furthermore, the invasion has moved the global economy into a risk-off environment, where 'safe haven' investments like the US Dollar are favoured over commodities. Hence we saw a significant selling off that pushed the NYC downwards.

Until the end of August the market remained largely within the 200-230 c/lb with smaller peaks and troughs driven often by reports forecasting the volume of the 22/23 Brazil crop. However, come 22 August, we saw three huge upwards trading days back to back, with the market peaking on 25 August around 240 c/lb. Again these gains were largely driven by First Notice Day for the Sep-22 market terminal, and bolstered by the specs and fears of a lack of rain in Brazil. Although the rally was short lived as concerns over the Brazilian weather eased.

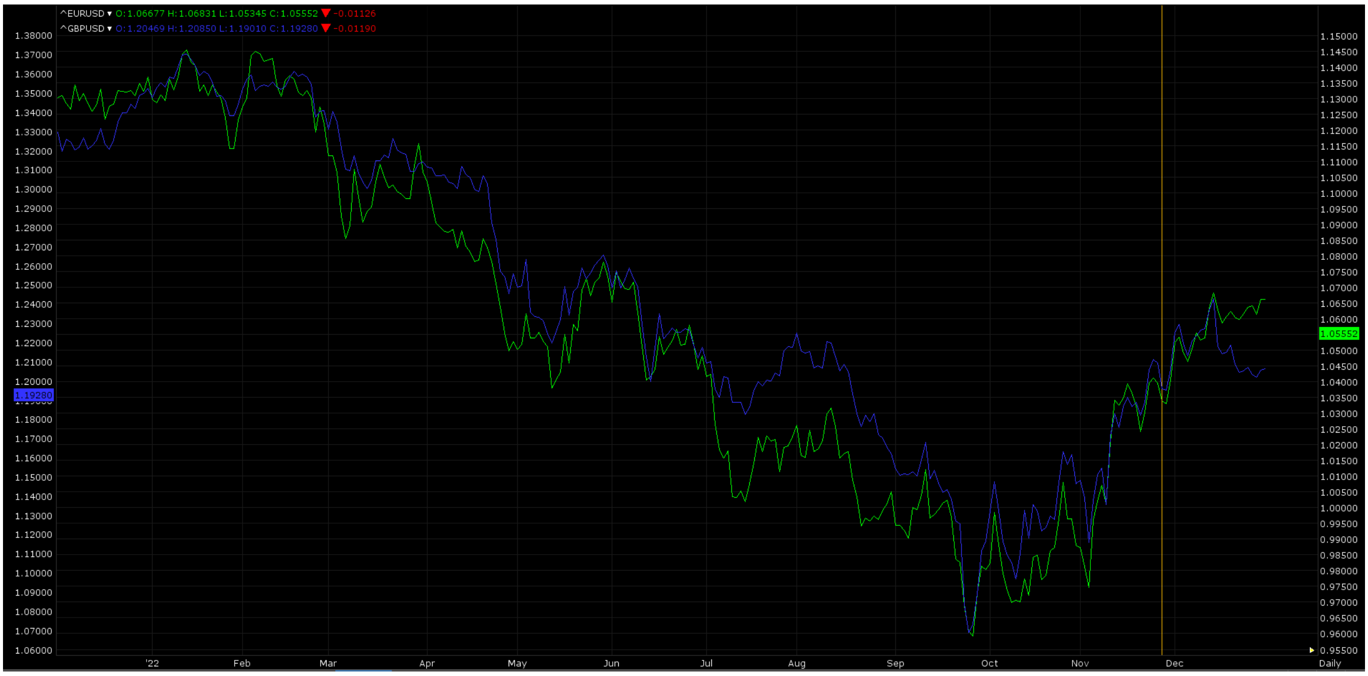
The tide turned in early October with the start of a sustained bear run, ending in mid-Dec with the yearly low of 155 c/lb, before regaining some ground and closing the year hovering around the 170 c/lb. Inflation, cost of living, high gas and oil prices, as well as sustained reports of a sizable Brazil crop all applying downward pressure.

Robusta

The story of 2022 for the London Robusta market was one of following the leader. As you can see from the chart above, the coffee markets followed a very similar pattern to each other. Although some trends were seen more sharply in the LIFFE.

The end of February saw the beginning of the bear run in response to the outbreak of war in Ukraine. The market dropped from 2,190 $/mt on 24 February to 1,988 $/mt on 3 March. August saw a sharp bull run, like in the NYC, but sharper and more sustained. Hitting the early high of 2,334 $/mt on 24 August, before falling off the same cliff as arabica did. It hit its yearly low of 1,769 $/mt on 17 November, and regained a little ground, closing the year out at 1,869 $/mt.

Currency & Macro outlook



This chart shows GBPUSD in blue and EURUSD in green.

It's been a turbulent year for currency, and 2022, like both the NYC and the LIFFE, was largely dominated by a series of drops downwards, with some slight recovery towards the later months, ending the year on a more hopeful note.

The high point of the entire year was hit on 13 January, less than two weeks in, with the GBP USD exchange rate reaching 1 USD to 1.37 GBP, a rate that in the past was considered fairly standard, but one that now seems like pie in the sky, and that we didn't see again for the rest of the year. This peak coincided with the easing, and shortly after, scrapping of Covid regulations. The wave of the Omicron variant began crashing over the UK in December 2021 and cases were sky high, on 13 January Sajid Javid shortened the self-isolation period for those testing positive to just 5 days in an attempt to mitigate the damage done to the economy.

The first hit Sterling took was at the end of February / early March when news broke that Russian forces had invaded Ukraine. As you can see in the chart above, both the Euro and Sterling dropped right down. When trends follow so closely like this, both currencies against the Dollar. The conflict itself, and the immediate fallout in the markets, particularly oil, sent the global economy into a risk off environment where investors sell off higher risk investments (e.g. coffee futures as we saw in the NYC and LIFFE) and buy up 'safe havens', the most famous of which is the USD. This trend continued for much of the year, sending the DXY up to the lofty heights of nearly 114 come the Autumn.

For the next months we got used to readjusting our opinions on what a 'good' exchange rate was, as it continued to fall through the floor.

From July British news became the main driver pushing the Cable downwards as we burned through prime ministers and chancellors investors lost confidence in the UK economy, taking us to records lows of 1.03, and well into the danger zone and the closest to parity we have ever been. After months (if not years) of scandal Boris Johnson resigned as prime minister on 8 July, Liz Truss was chosen as his successor on 5 September, and Kwasi Kwarteng delivered his mini budget on 23 September, the final nail in GBP's coffin, plummeting the exchange rate to 1 USD to 1.03 GBP.

However, all was not lost, Kwarteng's budget was effectively reversed, Truss resigned and Rishi Sunak took her place, and has proven to be a leader the markets had a lot more confidence in, as the exchange rate recovered, pushing first into the teens then twenties and closing the year at 1.21. A more hopeful rate than we had seen in months, looking more positive for what 2023 may bring.

We hope you enjoyed this report. Till next time coffee folks!