



DRWakefield

EST. 1970

Fortnightly Market Report

Good day. Welcome to the first DRWakefield Fortnightly Market Report of 2023! This fortnight we're covering the period Monday 26th of December to Friday 6th of January.

NYC movement:



The market was closed on Boxing Day and opened our reporting period at 171 c/lb. As expected, the period between Christmas and New Year was fairly quiet as many people were visiting friends and family. That said, the 28th did have a daily trading range of 8.25 c/lb which was more than most people were expecting. 174.95 c/lb was both the high of the day and the reporting period but it could not hold, and we closed out the day at 173.55 c/lb. The next day, however, was the start of a bear run where we saw the market close lower than it opened 6 days in a row. It opened the 29th at 172.95 c/lb and closed Friday 6th January at 158.30 c/lb. This represented a loss of 16.65 c/lb over the New Year reporting period.

What caused this bear run? As we will see later, certified stocks have been rebuilding at quite the pace and favourable weather in Brazil mean many are feeling more positive about Arabica volumes due to come from the world's largest Arabica producer next year. The talk of town, however, is about the 2023 Index Fund reweight/rebalance that is due to take place in the coming days. It's estimated that over 18K of lots need to be bought for the BCOM (Bloomberg Commodity Index) rebalancing and this could trigger a large move to the upside.

COT & certified stocks:

The CFTC's COT report with the cut-off Tuesday 27th December showed marginal activity during the shortened Christmas week and no major changes from any of the key trading parties.

The CFTC's COT report with the cut-off Tuesday 3rd January again covered data over a shortened week but we did see the non-commercial Net Short position reduce by 1,154 lots to total 14,472 lots Net Short.

Certified US Arabica stocks now sit at 830,272 bags with a further 206,704 pending grading. To put this into context, only 2 months ago we were over 450,000 bags fewer. The pace of this stock building helped break the market backwardation structure. A salient point is that many coffees are failing grading so we have to take the pending bags number with a pinch of salt.

Robusta



Robusta started our reporting period at 1,875 \$/mt and, unlike Arabica, it had a few bull days over the course of the fortnight that followed. Trading has been volatile as we occupy the pre-tet period where producers want to sell before the holiday with many reportedly willing to offload if we hit the 1,900 \$/mt number.

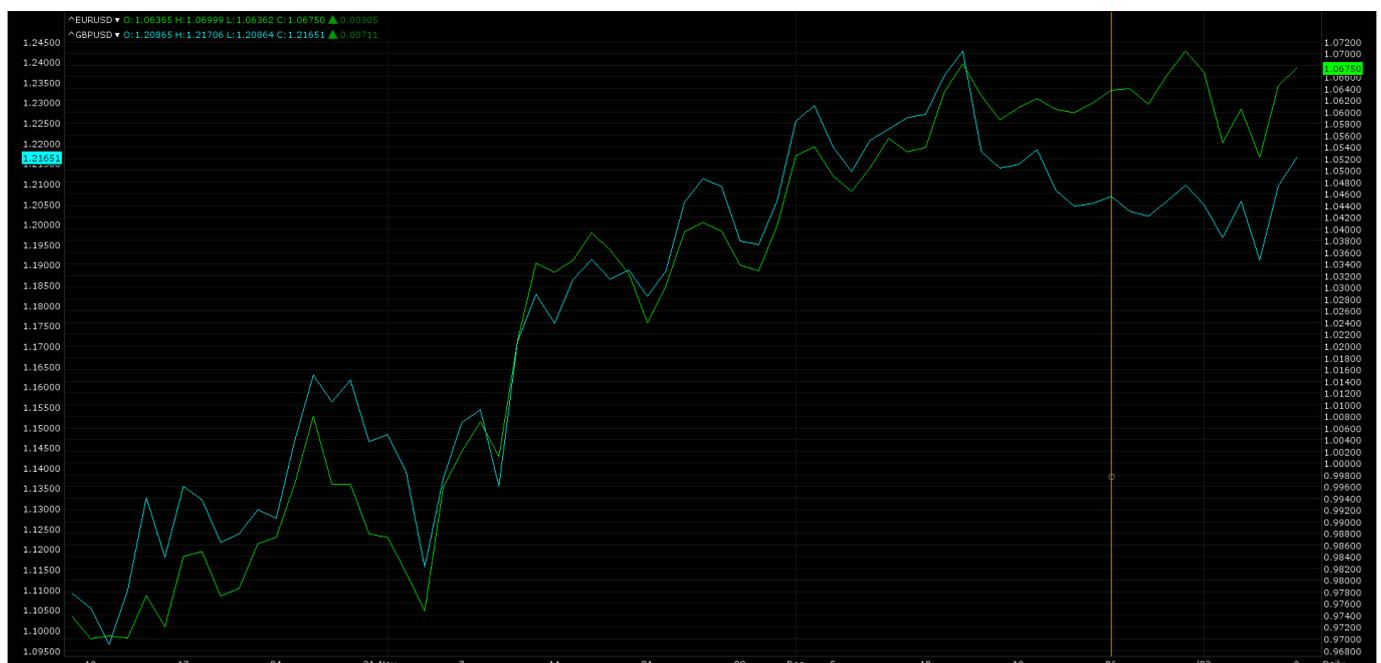
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Business in **Brazil** has been slow as there is a sizeable gap between what exporters want to sell at compared to the price ideas of roasters and importers. Santos differentials have strengthened to positive differentials in some instances which has caused many roasters to recoil and sit tight till pricing moves in the opposite direction. Certified coffee has also moved in this direction and there seems to be a paucity of Fairtrade and Rainforest coffee available till the arrival of new crop. If you have any certified gaps till September delivery it is certainly worth looking at covering these over the coming weeks. Lula was sworn in as the President of Brazil for the third time and investors continue to fret over his approach to Brazil's state-controlled companies with Petrobras and Banco de Brasil's shares hit by volatility during the president's first week. His comment that he would like to repeal the spending ceiling rule in particular has spooked outside investors.

Washed coffee is in short supply this crop in **Ethiopia** due to a lack of contracts from international buyers. Although the New York Coffee Market plummeted towards the end of 2021, domestic pricing in Ethiopia has remained firm, and even increased on certain grades. The high price climate has dampened the export business and activity is low for this time of year. Traders in Ethiopia are not demanding coffee to fulfil washed contracts like they usually would and they also don't want to take a long position when pricing is very high. This has seen more farmers hold onto their cherry and sun dry the coffees themselves, holding the belief that orders will come in later. With inflation at extremely high levels, we expect pricing to remain firm.

Christmas was a turbulent time in **Peru** with many roads closed across the country; this affected people's ability to visit friends and family and also to ship coffee. This was all because President Pedro Castillo in early December announced he was dissolving Congress and replacing it with an "exceptional emergency government"; he also declared a nationwide state of emergency. The president said the move was aimed at "re-establishing the rule of law and democracy" and the announcement was met with shock and dismay-the head of the constitutional court accused Mr Castillo of launching a coup d'etat. Many shipments that had ETDs for the second half of December were rolled to the beginning of January and thankfully the political situation has normalised somewhat with the roads back open. Most of the containers we had that rolled to the first week of January shipped without any issues.

Currency & Macro outlook



Has inflation peaked in Europe and the USA? Will softer inflation expectations going forward force the Fed to take their foot off the gas with regards to increasing rates? In November there was a strong market consensus that the Fed would raise rates by 0.75% every quarter in 2023, but now it's not a dead cert that we will even see 4 rises over that period. Here in the UK, the BoE is seen to be approaching an end to its tightening cycle and it's unlikely we will see the Bank Rate above 4% in 2023.

December data showed that European inflation ended the year well off its highs. However, rate rises are taking their toll on lending in both the Eurozone and the housing market in the UK. The big question is, when is the appropriate time to halt the hawks? How long and variable are the lags between monetary policy and their effects? Nobody has quite solved that answer yet and central banker's interpretations of the answer to this question will leave lasting effects on many for generations to come. It's not all doom and gloom though! You know inflation is not the same as it was in 2022 and the unusually mild winter in Europe has helped with energy costs. Despite the huge reduction in Russian supply, the EU entered the winter with gas storage close to capacity.

We have also observed a steady weakening of the Greenback which has seen both the Euro and Pound strengthen to levels that will please many in the import and roasting trade. As you can see from the graph, in early November the Euro was in fact weaker than the Dollar! GBP started the reporting period at 1.21 and strengthened to 1.22 whereas the Euro started at 1.064 and finished the period at 1.067. The good news is that most data points to a further weakening of the Dollar over 2023-nice to start off the year with some positives!

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

FX Data

	17.10.22	31.10.22	14.11.22	28.11.22	09.12.22	09.01.23
GPB/USD	1.12	1.15	1.18	1.20	1.22	1.215
EUR/USD	0.97	0.99	1.03	1.04	1.05	1.066
US Dollar Index	112.9	111.07	106.5	105.8	104.7	103.46
BRL/USD	5.32	5.29	5.32	5.37	5.24	5.22
COP/USD	4692	4822	4803	4857	4812	4911
ETB/USD	52.7	52.9	53.3	53.4	53.5	53.6
VND/USD	24270	24845	24822	24780	23598	23487