DRWakefield

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Fortnightly Market Report

Good day. Welcome to this edition of the DRWakefield Fortnightly Market Report. This fortnight we're covering the period Monday 23rd January to Friday 3rd February.

NYC movement:

The market opened on 23rd of January at 154.75 c/lb, and continued the bullish recovery trend that begun the previous week. The low of the day barely hit below open at 154.50 c/lb, and traded upwards for the rest of the day, closing at 158.55 c/lb. The bulls continued to run throughout the week, closing on Friday 27th January at 169.90 c/lb, the highest in the past four weeks. Volcafe released an updated prediction of the upcoming Brazil crop this week, and, as always, it made its mark on the market. Volcafe now predicts the harvest to be 40.5 million bags, significantly fewer than its prediction from 6 months prior which stood at 49.8 million bags. This bolstered the bullish trend. On top of which, the increase in certified stocks, which had been putting downward pressure on the market as more and more coffee was certified by the exchange, has become less of a pressurising factor as the pass rate for coffee being certified is now extremely low at around just 36%.

The second week of the fortnight proved less steady, Tuesday 31st January sent the market skyward with highs of 182.80 c/lb, highs of which we haven't seen since October 2022. The range was substantial at an 11.35 c/lb daily increase, making the coffee price close at 6.6% higher than the previous day. This spike in upward movement was boosted by the specs and index funds rapidly buying futures to cover their short positions. Like for those of us who did Dry January, the following day, 1st February, was a significant turning point, it hit period high of 184.20 c/lb, raising fears that we may once again be catapulting towards the 200 c/lb mark, before sharply changing its tune and turning bearish as the previous days' short coverings calmed down and eased off, closing at 175.90 c/lb, 5.85 c/lb below open. The final day of the reporting period, Friday 3rd February, traded very similarly, closing at 172.80 c/lb, 5.10 c/lb lower than the day's open, but still 17.75 c/lb higher than the start of the fortnight. This final fall of the period was pushed by both and end of short covering as well as a strengthening US Dollar, which saw the value of commodities decrease across the board.

COT & certified stocks:

The CFTC's COT report with the cut-off Tuesday 24th January showed the non-commercials covering their short position by 3,121 lots. They had previously increased their short position both very rapidly and very significantly, from 14,472 to 43,940 lots in just 2 weeks.

The publishing of the CFTC's COT report with the cut-off Tuesday the 31st January has been delayed, due to a 'cyber-related incident', the report will be released when the CFTC can be sure that all data has been collecting and reported accurately.

Certified US Arabica stocks now sit at 872,853 bags. However, the number of bags pending is currently 36,192, and seems to be tapering off a little. As mentioned above, the pass rate for lots being certified by the exchange remains very low, with the majority of lots failing to be certified.

Robusta

The London Robusta market seem to once again be copying the New York's homework, as it has a tendency to do. It opened the fortnight at 1,949 $/mt, and traded upwards, with the 31st January spiking at 2,107 $/mt with a huge trading day and a daily increase of 70 $/mt. The next day saw the tide turn with a fall of 54 $/mt, and the market closed out the period even lower at 2,031 $/mt, although, as with Arabica, still significantly higher, 82 $/mt, than the start of the fortnight.

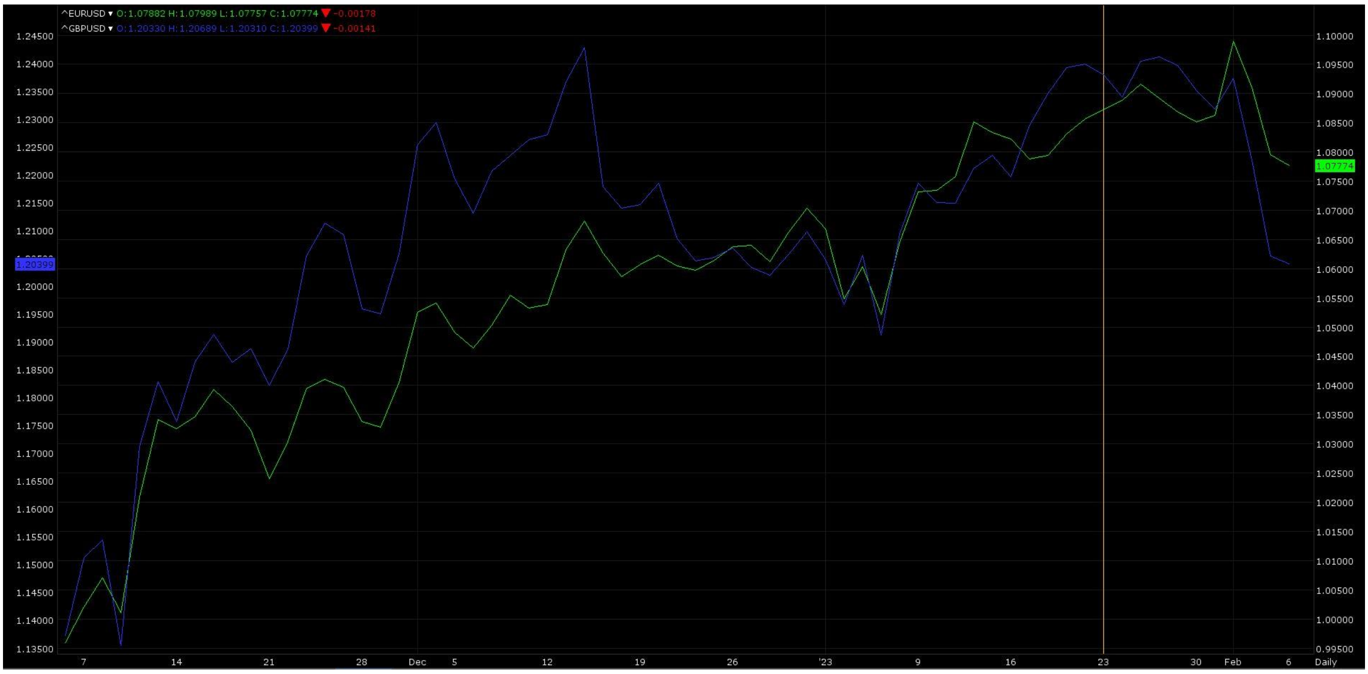
Origin:

As always, we, like much of the coffee industry round the world, always have one eye on the **Brazilian** weather forecast. 2023 kicked off with higher rainfall than expected, blasting through the historic averages for January. Heavy rain like this in Brazil can be either a very good or equally very bad omen, depending on what time of year and where we are in the crop. Thankfully, heavy rain at the start of the calendar year is the good news we are after, the cherries are already set on the trees and rain now means they will grow well. Reports of the upcoming 23/24 crop are, as we have seen over the last six months or so, very variable, but production is still expected to be higher than the previous crop. These heavy rains, particularly in many areas which have been suffering from water deficits, have replenished reserves, setting up this and the next crop well.

The **Kenyan** harvest is now in full swing, with the main crop volume now flooding through the auction. As the main crop reaches its peak, the quality of the coffee on offer continues to rise. Coffees from the central regions of the country are coming in now too and so far are performing well, cupping highly and displaying good acidity and character. Our fresh crop Kenya shipments are also on their way in, if you haven't booked in your Kenya volume, now would be the time to do it!

Reports from **Honduras** have been published revealing that their most recent crop saw coffee exports from the country drop by 18% versus the previous year. Honduras is the world's fifth largest coffee producer, but exported just 693,000 bags this past crop, down from 840,000 the previous year, a significant change of 147,200 bags. However, it is not all doom and gloom, as early reports coming out of the current crop are predicting a solid rebound. The harvest is 30-70% complete depending on the region and many are anticipating the final figures to show significant recovery.

Currency & Macro outlook



Sterling (shown in blue above) started the fortnight strong at a confident 1.237 GBP to 1 USD. It kept within the 1.23 to 1.24 range for much of the period, holding surprisingly steady. However, the start of February saw a change that had been on the horizon. As it said it would, the Bank of England raised interest rates for the tenth time on the trot, this time by 50bps to 4% in a hawkish move to try and attempt to combat inflation by encouraging people to save rather than spend. This move that was expected but still hit hard, pushing the cable off a cliff to just 1.20, which it has not recovered from.

The Euro (shown in green above) told a similar story, opening the period at 1.08 EUR to 1 USD, rising to highs of 1.09, before the European Central Bank also raised their interest rates by 50bps to 2.5%. They are committed to raising rates by a further 50bps in their next meeting in March to continue to monitor inflation. Currently President Lagarde of the ECB is positive about the outlook for the Eurozone, saying is economy has proved 'more resilient than expected', as it so far has avoided dipping into recession. In fact, the Eurozone economy managed to expand slightly in the final quarter of 2022, with its GDP increasing by 0.1%. Overall, throughout 2022 its GDP increased by 1.8% year-on-year, which is no doubt a triumph when it was expected to drop by 0.1%, suggesting that the ECB an Lagarde's hawkish strategy appears to be paying off. However, off the back of the announced rise in interest rates, the exchange rate did drop off, weakening the Euro to 1.06 against the US Dollar.

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	23.01.23	06.2.23
GPB/USD	1.12	1.15	1.18	1.20	1.22	1.215	1.235	1.205
EUR/USD	0.97	0.99	1.03	1.04	1.05	1.066	1.086	1.117
US Dollar Index	112.9	111.07	106.5	105.8	104.7	103.46	101.82	103
BRL/USD	5.32	5.29	5.32	5.37	5.24	5.22	5.20	5.15
COP/USD	4692	4822	4803	4857	4812	4911	4595	4654
ETB/USD	52.7	52.9	53.3	53.4	53.5	53.6	53.7	53.7
VND/USD	24270	24845	24822	24780	23598	23487	23443	23463