



# DRWakefield

EST. 1970

## Fortnightly Market Report

Good day. Welcome to this edition of the DRWakefield Fortnightly Market Report. This fortnight we're covering the period Monday 6th February to Friday 17th February.

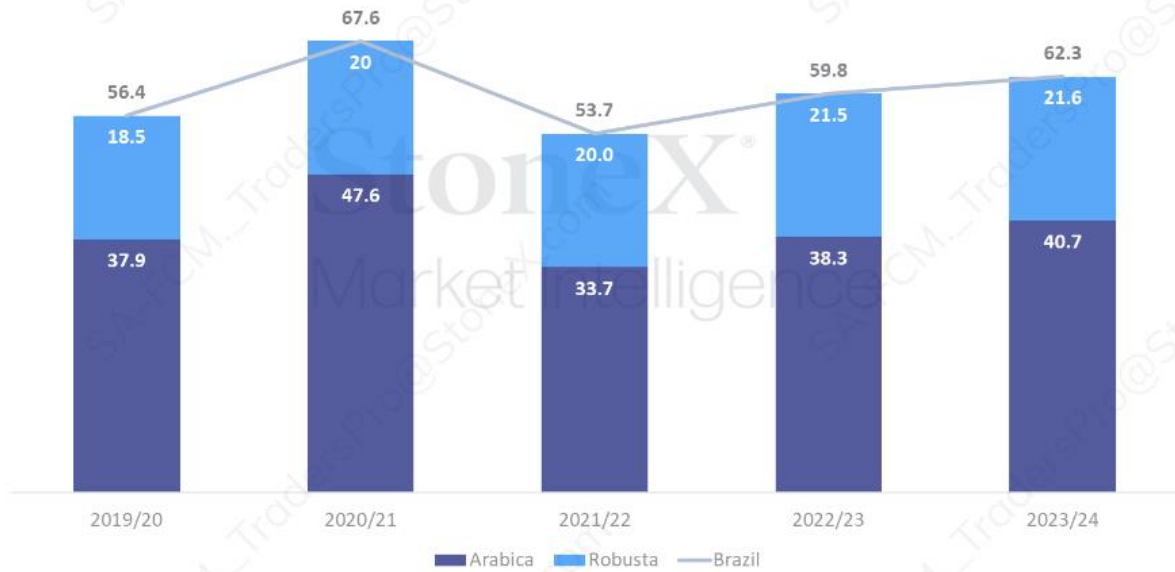
### NYC movement:



Monday 6th of February opened at 172.55 c/lb and, despite the USD/BRL appreciation, increased to close the week out at 174.45 c/lb. This modest increase was soon outshone by Valentine's day's increase of 5.55 c/lb as the trade was preparing to close out its positions before first notice day (FND) on Friday 17<sup>th</sup>. We saw a reversal on the 15<sup>th</sup> with the market dropping all of the value it gained on Valentine's Day and on FND, we saw a surge just shy of 8 c/lb! The surge in May futures was not quite this large but it did close over 6 c/lb higher than how it opened and closed out our reporting period at 185.75 c/lb, 13.20 c/lb higher than how we opened it.

A big reason for the bullish sentiment is the feeling that there might not be as much supply coming from Brazil this year. The report produced by StoneX on Monday 13<sup>th</sup> estimated a 4.3% increase in Brazilian production in 2023/24, to 62.3 million bags, 40.7 million bags of Arabica coffee and 21.6 million bags of Robusta coffee. Their figures indicate that production will be below the productive potential in the country and is lower than the perspective of some players, who even bet on a production greater than 75 million bags.

StoneX estimates for Brazilian coffee production (million bags)



Source: StoneX.

**COT & certified stocks:**

Due to cyber related issues the COT was not published during our reporting period.

ICE certified arabica stocks fell to 844,941 bags, with growing concerns on where replenishment will come from. Differentials remain firm in Brazil, Honduras and Peru; these origins represent a large percentage of certified inventory therefore one wonders where short to medium supply will come from, if at all.

**Robusta**



London opened Monday 6th of February at 2,030 \$/mt. You know, it's not the same as it was. 2023's open was 221 \$/mt lower at 1,809 \$/mt, representing a 12.2% increase over 6 weeks. Tuesday 7<sup>th</sup> was the biggest move of our reporting period, an increase of 40 \$/mt. And we closed out the reporting period at 2,085 \$/mt.

In Brazil, demand from domestic roasters for Brazilian Conilon has kept pricing high and this is also providing support for the London Robusta Market going forward.

### Origin:

Differentials in **Brazil** remain very high, even with the increase in the New York coffee market. The spread between current crop and new crop shipment (July onwards) continues to widen and the volatility of offers has reached levels not seen for a long time. Uncertainty around the upcoming crop size remain and trading has been very tentative. The reality is that even though pricing in Brazil is historically high, it's still the cheapest origin around so there is still demand, even it's restricted hand to mouth. Carnival this year is from the 17<sup>th</sup> to the 25<sup>th</sup> of February so we expect little trading action this week as Brazilians enjoy their big annual party.

**Honduras** is enjoying an abundant crop that is of good quality. This is welcome after last year's challenging harvest where the volume was less than expected and phenol was a persistent foe. Early harvest pre shipment samples are cupping better than higher altitude later shipments from 2022. We also expect freight rates to come down from Central America to Europe and the UK and this will help mitigate quite firm diffs at origin.

On January 15<sup>th</sup> **Peru's** government declared a state of emergency in the capital of Lima and three other regions following weeks of protests against President Dina Boluarte that have claimed at least 42 lives; the port of Callao in Lima, one of the two key coffee export ports, was caught up in the chaos. Last week, in response to ongoing unrest the government extended the state of emergency in some departments but in others the state of emergency did expire on February 14<sup>th</sup> and tourism returned with the reopening of the Inca citadel of Machu Picchu, which was closed for three weeks. Ongoing transport strikes are affecting the coffee flow and the impact of this varies from region to region as some regions remain largely unaffected. Of course, this has affected December and January shipments so this may shorten the March holiday where most coffee folk in Peru have a short break before the start of the next harvest.

### Currency & Macro outlook



Economic data over the last fortnight has shown there is a level of resilience in the UK that was not evident even a few months back. Inflation has fallen more than expected and labour market data is positive. The Bank of England's (BOE) prediction of a tough recession looming perhaps was misguided as inflation 'May not be as persistent and stubborn as feared'. While this is welcome news, it's worth noting that headline inflation fell to 10.1% last month so we are still in double figures. This is why the market consensus is that we will see another rate rise (0.25%) next month at the next BOE Monetary policy committee. However, expectations are building that it could be the last rise for a while. Before we pop open the champagne, it's also worth mentioning that the UK economy is the only one in the G7 not to have recovered to pre-pandemic levels so there is still lots more positive data to come in to give us cause to celebrate. Has all this rosy UK data benefitted the Pound? Not as much as we would have hoped. The reason? Dollar strength.

The Dollar has rebounded from a 10-month low as traders see inflation over the pond as more persistent and showing signs of being stickier than originally forecasted. It's been a bit of a yoyo but now consensus is growing that the FED has a few more rate rises in them than was predicted a couple of months ago. Yes the US economy is in good health, but inflation is coming down slower than expected and February's economic data has ruined the markets plan for a steady easing of inflation. That said, some investors doubt the Greenback's rally has too much more gas in the tank as global growth and risk sentiment improve and it would be very surprising if we got near the levels we saw in September when the world's reserve currency rose to 20-year highs.

GBP/USD started the fortnight at 1.202, strengthened to 1.217 and then fell back down to 1.204. The Euro started at 1.072 and traded in a more narrow range, ending the reporting period at 1.066.

Is the ECB taking a hawkish or dovish tone? ECB Governing Council member Nagel said he doesn't think interest rates have reached a level that puts a brake on economic activity so we consider it likely that rates will continue to increase and this should give some support to the Euro.

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

## FX Data

	31.10.22	14.11.22	28.11.22	09.12.22	09.01.23	23.01.23	06.2.23	21.2.23
<b>GPB/USD</b>	1.15	1.18	1.20	1.22	1.215	1.235	1.205	1.204
<b>EUR/USD</b>	0.99	1.03	1.04	1.05	1.066	1.086	1.117	1.068
<b>US Dollar Index</b>	111.07	106.5	105.8	104.7	103.46	101.82	103	103.85
<b>BRL/USD</b>	5.29	5.32	5.37	5.24	5.22	5.20	5.15	5.167
<b>COP/USD</b>	4822	4803	4857	4812	4911	4595	4654	4920.1
<b>ETB/USD</b>	52.9	53.3	53.4	53.5	53.6	53.7	53.7	53.799
<b>VND/USD</b>	24845	24822	24780	23598	23487	23443	23463	23745

