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 20th February to Friday 3rd March.

NYC movement:

Monday 20th February was President's Day bank holiday in the US, so the NYC market remained closed, giving us time to recover from a very active First Notice Day at the end of the previous reporting period! However, Tuesday 21st February saw trading come back with a bang. The market opened at 186.35 c/lb, broke through the 190 c/lb level to hit highs of 192.95 c/lb, before closing at 189.85 c/lb. This movement was driven by continued short covering and spec buying. Brazilian players remained absent for the final day of their Carnival holiday. The following day saw the bulls keep running, hitting the period high of 194.15 c/lb and closing at 193.35 c/lb. This was driven by players in the market being forced to cover their short positions they'd made in anticipation of a more aggressive return of Brazil after Carnival finished than happened. Rather it seems like there were some sore heads and a case of the post-holiday blues in Brazil, as they remained fairly quiet!

The bullish tide turned on Wednesday 23rd February, with the market open of 193.35 c/lb also being the highest trade of the day, the rest of the period saw the market steadily drop down, day after day. Closing out the period at 177.85 c/lb, safely away from the 200 c/lb danger zone, and a significant 16.30 c/lb lower than the fortnightly high. This was driven by a liquidation of long positions as the index funds eased their short coverings.

COT & certified stocks:

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

ICE certified arabica stocks fell again to 786,721 bags, with over 50,000 pending grading. Whilst it is certainly not good news that certified stocks are beginning to decline again, we are currently still a good way off the dangerous levels we saw throughout the autumn of 2022 where stocks plummeted to almost 300,000.

Robusta

As there was no bank holiday in the UK the London Robusta market opened as usual on Monday 21st February. And, as it has a tendency to do, followed the same bullish trend as its brother across the pond. 22nd February saw highs of 2,208 $/mt, a significant increase of 118 $/mt on market open of the reporting period. The bears came in on 23rd, turning the tide and pushing the market down 44 $/mt in one day. The second week of the reporting period saw a change of tune. Someone must have grabbed both the LIFFE's shoulders and shook, as it snapped out of following in the NYC's footsteps. Rather than continue on a bearish run, 1st March saw Robusta shoot up 55 $/mt to a high of 2190 $/mt. This activity was driven heavily by speculators selling Arabica and buying up Robusta and saw the highest daily volume traded in a while, with 12k lots changing hands on the May-23 contract alone. The action tailed off towards the end of the week, and the reporting period closed at 2,162 $/mt.

Origin:

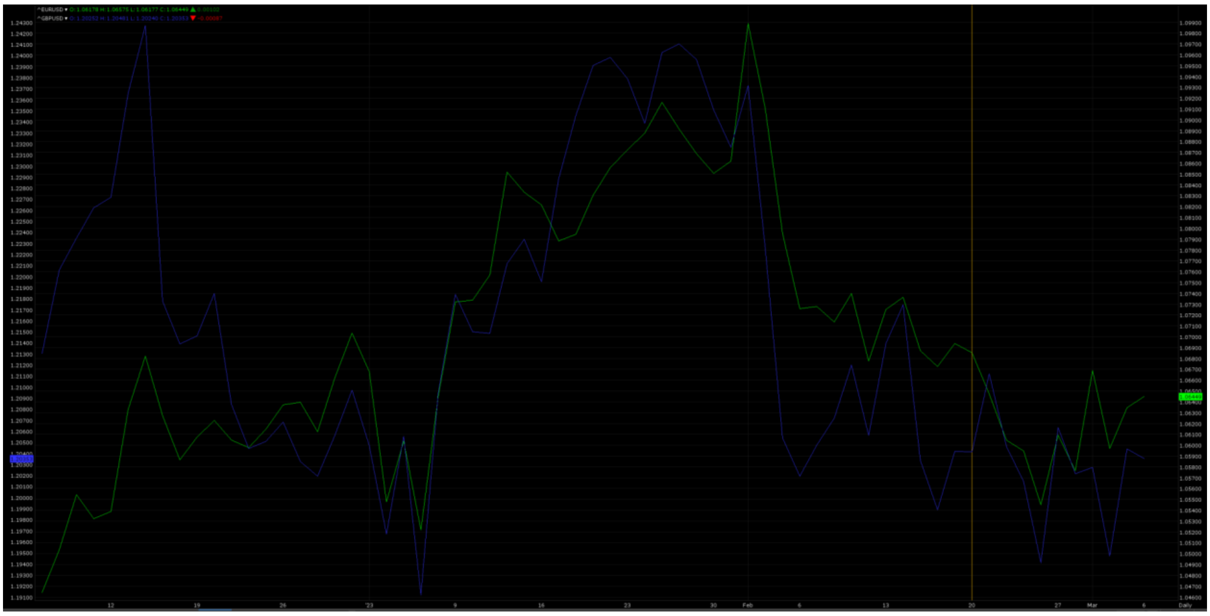
The harvest in **Ethiopia** is in full swing with enough coffee having been processed to compare how this year's harvest is shaping up. Due to drier weather conditions since 2020, we've seen a significant drop in the volume of coffee that's been grown in Ethiopia. This year's crop, however, looks to be on the up, with volume predictions higher than last year, but still below pre-2020 volumes. Although this means there is not a great deal of

Ethiopian coffee around this year, it is good news for the quality of the coffee which has been produced. When the crop is larger than expected it can cause problems with processing. The coffee has less time to dry and can therefore be exported with a higher than ideal humidity which can cause problems in the cup profile down the line. Moreover, the devaluing of the Ethiopian Birr has made farmers hold onto their cherries and dry their coffee themselves, as they are now able to export their coffee directly, selling their coffee in cherries has become a less attractive option.

At this time of year we are, as always, waiting for the fresh crop from Central American origins to land. The fresh crop from **Guatemala** is being hotly anticipated by importers and roasters. However, after two years of sizably smaller crops, this year, unfortunately tells a similar story. Estimates suggest the 22/23 crop will be about 30% below 21/22 crop. The story is very similar to that of last year's; mass migration to the USA has meant that pickers are in very short supply and that there are simply not enough hands to harvest the cherries. On top of which the weather has not been ideal for a good crop, a good deal of sun is needed for coffee trees to have a good flowering and this year that has not been the case. As a roaster, if Guatemalan coffee is a key origin for you, get in touch to book forward your requirements.

On the other hand, the weather in **Vietnam** has been very sunny in most of the lower altitude coffee-growing regions, where Robusta is mostly grown, which has been optimal for the harvest. The bullish trends we've seen in the LIFFE, shown above, have pushed up the farm gate price of Vietnamese robusta. Although most farmers remain bullish and are reluctant to sell their coffee just yet, hoping that the price will continue to rise. Differential prices of Robusta are also rising in Vietnam, which is compounding the price increase. What this means for importers and roasters is that we will likely see an overall increase in the price of robusta.

Currency & Macro outlook



It seems like the Cable (shown in blue on the chart above) can't make up its mind and has been blowing hot and cold over the last fortnight. It began the reporting period trading at 1 to 1.20, before jumping up to 1.21, then falling down to 1.19 before recovering to 1.20 and then swiftly falling back to 1.19. It recovered once more to 1.20 and closed out the period heading downwards again. Don't know if you're coming or going? Don't worry it clearly doesn't either! Although these swings have oscillated very quickly, they've all kept within the band between 1.19-1.21, which suggests a degree of stability despite the shifts and shows that it has remained largely unchanged in the face of the new Brexit deal.

Overall, the outlook for the UK economy remains tentatively optimistic. Huw Pill, the Chief Economist of BoE stated that 'in addition to pay growth, the UK economy is showing slightly stronger positive momentum' than they had excepted to see last month. However, the British public appear to still be cautious. A survey conducted by YouGov has revealed that percentage of the UK public who expect inflation to continue for the next year is higher than what it was in January. There has also been an increase in the public's expectation for inflation to continue well into the long term.

On the other side of the Atlantic the story is not quite as hopeful. In its half-yearly report to Congress, the Fed has stated how acutely aware it is of the risks that can come with hiking interest rates, and remains set on lowering inflation to its target of 2%. However, the US economy is not cooling down as fast as the Fed had hoped, and the market is still anticipating future interest rate increases, despite the Fed's intentions not to do so.

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

FX Data

	09.12.22	09.01.23	23.01.23	06.2.23	21.02.23	06.03.23
GPB/USD	1.22	1.215	1.235	1.205	1.204	1.201
EUR/USD	1.05	1.066	1.086	1.117	1.068	1.063
US Dollar Index	104.7	103.46	101.82	103	103.85	104.6
BRL/USD	5.24	5.22	5.20	5.15	5.167	5.19
COP/USD	4812	4911	4595	4654	4920.1	4786
ETB/USD	53.5	53.6	53.7	53.7	53.799	53.8
VND/USD	23598	23487	23443	23463	23745	23712