

World Market

June 25 – July 10, 2020

Coffee future prices settled mixed, seeing some volatility in recent days.

Upbeat demand-side projections and reports of a cold front moving into Brazil propelled arabica future values to a one-month high of 103.15¢/lb, after a four-day rally. Support also came from a report that some Costa Rican coffee may not be harvested if a coronavirus-induced foreign labour shortage is not resolved soon. Moreover, some market players reportedly left short positions ahead of the long July 4 holiday in the US.

However, prices saw some downward corrections over subsequent days. Concern over the impact of the cold front in Brazil did not materialize, and there were expectations for dry weather conditions there in coming months, boosting processing of the 2020/21 crop. Moreover, real weakness capped gains in coffee prices. Dealers added that recent falls in some Central America exports signalled poor demand. Last but not least, exchange reports still pointed to net short positions (see below).

ICO Indicator Price



The benchmark September arabica contract finally settled at 97.40¢ per lb, down 40 points in the period under review. December ended flat at 100.05¢.

Robusta futures saw gains, with the most-active September contract settling up USD21 at USD1,197 per tonne. November also rose by USD21, to USD1,215.

Tightening supply and low global prices limited trade in **Vietnam**. Farmers in the Central Highlands sold at VND32,000 (USD1.38) per kg, unchanged from last week. Traders offered 5% black and broken grade 2 robusta at a USD240 premium per tonne over the September contract, up from USD200 last week.

Coffee exports in June fell 2% from May to 127,700 tonnes (around 2.128 mln 60 kg bags), government's customs data show. This brought the Oct/June 2019/20 total to around 1.302 mln tonnes (21.694 mln bags).

Healthy demand supported markets in **Indonesia**. Robusta exports from Lampung jumped to around 14,172 tonnes in June, up 60.0% from the same month last year, preliminary local trade office data show. On a monthly basis, exports rose from 7,966 tonnes in May. Exports so far in the current 2020/21 (Apr/Mar) season were up by 21.0% to 33,309 tonnes.

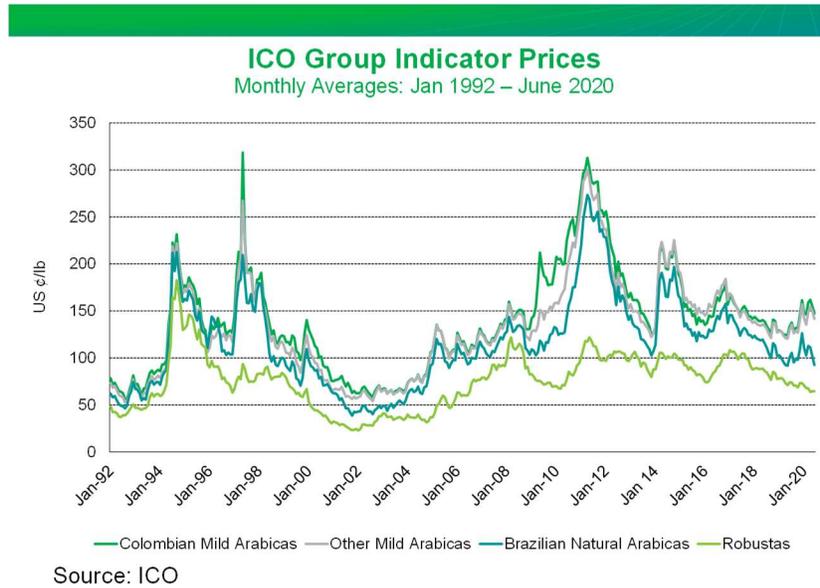
From **Brazil**, Cepea reported mixed prices. Its index for arabica beans, delivered to São Paulo closed at BRL491.88 (USD92.08) per 60-kg bag as of July 6, up 1.6% on the week. The one for robusta type 6, screen 13, Espírito Santo state, was down 1.8% at BRL342.58 (USD64.13) per bag.

Lower spot prices in Brazil prompted an increase in forward sales. Cepea said that roughly 30% of the crop should have been traded nationwide with prices at BRL490-600 per bag, depending on delivery period and quality, with Safras&Mercado pegging the share at 40%. Coop Cooxupe said that around 60% of the coming arabica harvest was fixed at an average BRL530 per bag, an unprecedented level. The price range for forward sales was wide, between BRL400-600.

Forecasts for Brazil's coming harvest vary. IBGE recently projected a 2020/21 output at 59 mln bags, revised up by 3.1% from its June outlook. The agency sees arabica coffee production at 44.5 mln bags, 4.8% more than in June and 28.9% higher than in 2019/20, and robusta production at 14.5 mln bags, 5.8% less than last year. IBGE's view contrasts with other available projections in the market. The US Department of Agriculture estimates the crop at 67.8 mln bags. Broker Marex Spectron sees it at 66 mln bags. Safras & Mercado estimates output at 68.1 mln bags, a record level.

Bearish data emerged from **Colombia** where June output reached 1.362 mln bags, up around 13% from 1.317 mln in the same month last year, according to Fedecafe said. This brought total production in the first nine months of 2019/20 (Oct/Sep) to 10.704 mln bags, up around 4%. Exports rose by 1% to 1.123 mln bags in June from 1.110 mln a year ago. This brought total exports so far in 2019/20 to 9.486 mln bags, down 6% from 10.137 mln in the year-ago period.

ICO Group Indicator Prices



Costa Rica's exports in June amounted to 144,389 60-kg bags, up 5.6% from the same month last year, reversing course after a substantial dip the month before, according to ICAFE. This brought total shipments in the first eight months of 2019/20 (Oct/Sep) to 841,697 bags, down 2%. Local farmers have warned that the coronavirus has led to a foreign labour shortage, raising fears that there will not be enough workers to pick the beans.

Honduras' exports amounted to 651,746 60-kg bags in June, down 26.9% from the same month last year, according to preliminary data from ICAFE. This brought total exports in the first nine months of 2019/20 (Oct/Sep) to 4,925,341 bags, down 12%.

There currently is no bullish sign in sight for world market coffee prices. COVID-19 is seen cutting demand for specialty coffees: for Brazil, Cepea stated that it expects a price decline for 2020/21 for arabica beans from BRL504.90 per bag in 2019/20, following the positive biennial cycle and the record output. For robusta beans, Cepea's price outlook is flat (2019/20: BRL319.54) with demand from roasters and exporters seen firm. COVID-19 may have a positive impact on robusta as the lower purchasing power could support demand for common coffee blends. In other news, Citi downgraded its second-half coffee price forecast by more than 25% to 90¢ per lb, mostly due to expected weakness in the real.