

26 August 2022



FUNDAMENTALS

We believe that most coffee traders did not expect a such rise of 33 cts in basically 4 days. Speculators are obviously behind this ascension driven by Brazil's 2022 coffee production hurt by dryness this year and frosts last year. Most of estimations for the Brazil production in 22/23 have been over estimated till recently. Figures still remain confused and uncertain, but it seems that we could see a consensus at nearby 40 millions bags for Milds. There are many theories behind the recent increase of certs and the truth might only be known at a later stage. However, the growth of certs in NY will be limited and going back to 1 million bags is simply impossible for the time being which such firm diffs in all origins. The question is, has NY priced in at 243 cts the current concern about the excessive dryness in Brazil could reduce the global coffee supplies? It might depend on the appetite of Specs. But finally, Fundamentals are driving again coffee prices instead of Macros and we have to admit that a little spark was enough to lift NY as it happened with the previous frost alert. In other words, Fundamentals have taken the lead again and we have clearly understood that the weather in Brazil is the only factor which can knout out the risk of recession. On the demand side of the balance sheet, it seems very healthy so far and no significant effect from inflation and economic difficulties. The inverted spread Z/H suggests some tightness coming up in terms of supply at the beginning of the next year.

MACRO

All market participants have their eyes on the Jackson Hole annual Symposium which will take place today. In the meeting, Jerome Powell may provide some indication on the next rate hike supposed to take place on 21 Sept. Basically the whole market seems to have priced in and expect a 75 bps move. The least one can say is that the FED policy has not really been successful so far. Moreover, any coordination between the FED and ECB seems to be doomed to failure as the inflation has not exactly the same roots on both side of the Atlantic. In other words, we do not expect a major direct effect on commodities from the speech today, however the hit could come from the DXY. Indeed, Jerome Powell might give some additional strength to the USD in the coming weeks, which is bearish for commodities. Last point about the FED, they see their rate at 4% within next year. Moving to Asia, the Chinese economic slowdown is becoming more serious day after day. If the US and China economies keep falling down, it would definitely make an eventual recession more severe. The war in Ukraine sounds endless. Putin is apparently completely stuck with his public opinion and can hardly step back. Russia has just added 137k soldiers to its army for reaching 1.15 million service. One more drop to the current tense geopolitical situation.

TECHNICAL ARABICA ANALYSIS

NY is struggling to break the resistance area nearby 220 cts. It seems that there is an intensive fight between Bears and Bulls. Bears have lost 4 cts during the battle in the latest pullback (first Low at 204 on July 25th and the latest one at 208 cts on Aug 8th). Bulls have failed 2 times to break 222 cts (on August 1 and 5). So far it seems that the Bulls have a slight advantage compared to the Bears as the chart shows an uptrend blue channel.



Coffee Weekly Insights



TECHNICAL ROBUSTA ANALYSIS

The positive momentum remains intact as long as the Blue channel is not broken through its lower band. So it seems that London might evolve in the range 2400 – 2225 usd. Some dips could come up for a Long position opportunity.



OTHER MARKETS

The DXY and currencies need to be monitored and some analysts are forecasting 111-112. Commodities have done a good job since July as we can see it through the BCOM which climbed from 110 to 126. The question remains the same as for the equities. Will we go for a new High or is it a Dead Cat Bounce.

