

February 24, 2023



SUMMARY

Let's start your weekly report by talking about an historical character who could have been a big support for Jerome Power if he was still alive. Paul Volcker was an influential figure in the field of economics and government service. He was appointed as the president of the Federal Reserve Bank of New York in 1975, before later serving as the chairman of the Federal Reserve from 1979 to 1987. During his time as chairman, Volcker implemented policies to combat inflation, which included raising interest rates to very high levels. This was a bold move that caused short-term pain for the economy, but ultimately succeeded in reducing inflation and stabilizing the economy in the long run. Volcker's legacy continues to be felt in the world of economics and public service today. He passed away on December 8, 2019, at the age of 92, but his ideas and influence live on. Coffee is under pressure and the tightness of the balance sheet is more and more obvious. Adding to the challenge, Brazil reports significant reductions in its exports green coffee and stocks in the United States are at a relatively low level compared to previous years. Indeed, the ongoing disappearance of coffee imports in the USA is causing concern about the country's coffee demand. This worry is further exacerbated by the decline in US green coffee stocks, driven in part by reduced supplies from Brazil. It is likely that the coffee demand will be directed towards destination stocks, rather than being certified for delivery. As a result, certified coffee stocks are expected to continue to decrease, which could put bullish pressure on the market and cause the forward curve to shift.

When it comes to Robusta coffee, it is important to note that the supply chain remains tight, and Robusta differentials are still quite high. While only Vietnamese FOB differentials currently still offer relatively affordable prices, this situation could change quickly. As demonstrated last week, FOB differentials remained steady despite an increase in Robusta prices, indicating that further price hikes could be on the horizon. However, London is not going skyrocket despite the tight supply simply because the market is absorbing the Vietnamese crop. Indeed farmers are rather happy with a price approaching 50,000 VND. With regards to differentials, Arabica certified stocks, particularly those from Brazil, appear to be very attractive and buyers may be willing to stop them soon. Broadly speaking, it appears that there are few viable alternatives for the coffee industry at present, and Brazil's coffee exports are still highly sought after despite their historically high prices. This strong demand for Brazilian coffee may help to explain the sustained strength of the New York (NY) market. The COT report has not been released for 3 weeks which seriously limits market transparency. However, the reduction in OI suggests that funds may have been covering their short positions during this period. Regarding the global coffee balance sheet, we would like to remind you that there is a consensus among traders that 22/23 will still be a deficit whilst 23/24 should show an excess.

MACROS

The current geopolitical situation between the United States, Russia, and China is tense, which causing an impact on global financial markets. The US dollar is currently strong, while crude oil prices are softer following a recent CTA short squeeze. However, traders are concerned about the weakening of the Chinese yuan, as tensions between the US and China continue to escalate due to issues such as the supply of weapons to Russia and other geopolitical concerns. The potential consequences of these tensions could have far-reaching effects on the global economy, and market participants are closely monitoring the situation for any signs of further instability. Recent inflation data from the US suggests a worsening trend, as the Producer Price Index (PPI) came in above market expectations, and US retail sales jumped. This is compounded by the employment data, which indicates that the US economy is remaining strong despite rising interest rates. Investors are now more persuaded than a few weeks ago that central banks will take interest rates higher than expected, and potentially keep them high for a long time. Another indicator to monitor is the 10-year Treasury yield which has recently leapt. It reflects optimism that the U.S. won't fall into a recession, but that also means inflation will likely be more persistent, and as a result, the Fed could be leaning toward being more aggressive. Markets now see at least an 80% chance of three more quarter-point rate hikes, with a small-but-rising chance of a half-point move in March or May.



ARABICA TECHNICAL ANALYSIS

What a beautiful ascension in NY since we hit 142 cts in Jan 23. The uptrend is very sharp on the chart with another opportunity to go Long at 175 cts, in case we missed the "first train". The hope to reach 200 cts or even 210 cts is back among traders. For sure, it is preferable to avoid a short position and to wait for a new correction to go Long. Trading in the same direction as the trend should be less risky than speculating on a counter-trend at this moment.



ROBUSTA TECHNICAL ANALYSIS

We are under the same impression for London. The Lowest Low was at 1788 usd on Jan 11th. From this date, whatever level a Long position has been taken (till Feb 21th), it would be in the money today. The trend is the king.



OTHER MARKETS

Recent macro developments are being closely monitored by market analysts, who are looking for any indications of how the US Federal Reserve may respond in terms of its monetary policy. As a result, international stocks and commodities fell and future interest rates rose, with expectations of further increases in the US interest rate.