March 8, 2019

COFFEE MARKET REPORT

Month	Settle	Daily Change	Weekly Change	%Change This Week
March 19	.9530	+0.0165	-0.0165	-1.70%
May 19	.9850	+0.0165	-0.0170	-1.79%
July 19	1.0120	+0.0165	-0.0165	-1.60%
September 19	1.0400	+0.0170	-0.0150	-1.41%

Coffee Market

The market saw its lowest levels since October on a continuation basis last week. Prices fell 2% as funds once again continued to sell.

Last week's report was delayed as the commodities team attended the annual National Coffee Association convention. This annual event sees attendance from around the world and is a great chance to get some perspective on the market directly from many participants within the supply chain. It should not be difficult to guess that the overall tone of the convention was rather depressed given the low overall market prices generated by the low C market values. Prices are below cost of production in many origin countries and the pricing struggles are starting to have their impact. Talk of less crop care and even threats of abandonment from smaller farmers prevailed. Despite very high differentials, some producers are refusing to sell at such low levels and are holding back coffee in hopes of higher prices. All this said there seems no clear consensus on how to alleviate the issues. Much of the "blame" is focused on the C market and the funds seemingly incessant selling. Indeed, they were shown to be 75k lots short as last week. This is back up toward volume seen last in October when the market was coming off 12-year lows. That position did help spark a thirty-cent rally but that was short lived. Pointing fingers at the fund sellers and the C market itself for the struggles producers are feeling is easy to do, it is the very visible face of the problem. However, it needs to be remembered that the real reason the market is at these levels is that last crop cycle saw record production from the two biggest producers (Brazil and Vietnam). The global supply and demand balance moved into a surplus for the first time in 3 to 4 years. Funds are only reacting to that fact and seeing a market that is in a clear stable trend. Their position is a bit self-feeding (as the market declines they reinvest profits into the position) and they will only cover their position if the market starts to go against them. They will not initiate a change. So what can stabilize prices enough to spark them to cover again? The easy answer is lower supply. The developing crop cycle in Brazil is smaller than last year's record crop. There was a consensus among the trade on that fact and many say it could be 20% smaller. Overall, global supply demand is expected move back to a small deficit over the coming cycle. In the meantime, though the market is very well supplied near term and the industry is content not to buy the strong differentials seen. It will likely be months before the market starts to feel the impact of the lower production and this may keep market prices low until later this year.

At this point, there is no evidence that the current decline will not continue. Longer-term chart patterns are now suggesting another 10 to 12 cents lower are possible short term. While logic and history evidence that prices below $1 are both good value and hard to sustain there seems little incentive to try to pick a bottom. Would be more inclined to let the market develop and pick a number above the market to suggest the trend is changing. At this point would reassess buying again if the market moves above 10300 on the nearby month. Otherwise will watch a continued decline for clues that the market is trying to form a bottom.

Tea Report

Overall, markets were a bit slow this past week. Argentina continues to have good weather and plentiful green leaf. However, some stocks remain unsold. Season rumored to end earlier than typical. Weather and production in other producing regions at standard levels for this time of year.