

March 13, 2020

COFFEE MARKET REPORT



| Month | Settle | Daily Change | Weekly Change | %Change This Week |
|--------------|--------|--------------|---------------|-------------------|
| March 20 | 1.0705 | - 0.0210 | + 0.0145 | + 1.37% |
| May 20 | 1.0675 | - 0.0210 | - 0.0065 | - 0.61% |
| July 20 | 1.0845 | - 0.0200 | - 0.0085 | - 0.78% |
| September 20 | 1.1020 | - 0.0190 | - 0.0105 | - 0.94% |

Coffee Market

Once again coffee seemed to represent an island of stability in the rough seas of global markets. Week to week prices declined less than a cent, though to be fair, volatility remained high as they bounced around in a thirteen-cent range overall. The coffee story remains the same. There is little coffee flowing right now, differentials remain high and physical business is hand to mouth. Forward offers are scarce despite the high differentials. At this point there is a general perception that middlemen are short and struggling. Colombian differentials are the most impacted by this as the mid-crop has yet to start flowing to relieve pent up demand. Central American differentials remain firm on lower production and quality. Brazil is waiting for the new crop harvest to begin. Farmers there are well capitalized and despite seeing the Brazilian Real out to 5 to 1 against the dollar have remained very disciplined. They do not need to sell more and are willing to ride the turmoil for potentially higher prices. Supply will likely remain tight over the coming months and the market nervous. This is without factoring in potential shipping disruptions that the market is wary of as the virus spread impacts economies. On the macro side there has been excessive turmoil. Equity markets continue to bear the brunt of the global panic over the spread of the corona virus. The Dow Jones is officially in bear market territory after dropping 15% on the week. Energy markets are at decade lows or more. Again, coffee has seemed to somehow insulate itself from this, but one impact is that funds, who are often a major driver of price moves, are virtually flat coffee right now. Positions were liquidated by them on both sides. This is significant. As the world closes borders, cancels events and surrounds itself in toilet paper it is obvious that funds are in a holding pattern after reducing their exposure. That neutrality likely will not last long and when they re-enter the market it could prove explosive. Given the overall low prices and the tight supply situation the risk of their reentry would seem to favor a potentially explosive rally.

Technically the market ends the week in a slightly negative stance. At the same time, it was able to fill a potentially negative chart gap and continue to consolidate. Overall the range remains intact and should hold prices for much of the year. However, it should be noted that ranges are usually bridges from one major move to another, a period of calm so to speak. After the multiyear decline chart patterns would suggest the next likely move would be a rally of some note. Prices could easily move north of 150/160 without too much effort under current conditions. Would continue to view current levels as good value to extend coverage. Limiting risk over the coming months will be critical.

Tea Report

Teas on offer at the Kenya auction remained high this week at just under 200,000 packages. Demand remained fairly constant as well with only about 13% unsold, though prices dropped on many qualities by 5-10 usc. Good weather and high yields mean large offerings are likely to continue. North India saw little on offer, with mostly the remnants of last season's tea meeting limited demand. Malawi saw selective demand as well, with prices dropping fairly significantly, up to 20 usc or more. In Sri Lanka dry weather is affecting crop yields in some areas, with very low levels on offer. Indonesia is continuing to see favorable weather, with prices staying fairly steady at auction. Though global ocean freight is mostly back to normal in East Asia, there are some reports of equipment shortages and delays. This will be watched closely as countries further restrict movement amid Coronavirus fears.

