

November 12, 2021

COFFEE MARKET REPORT



Month	Settle	Daily Change	Weekly Change	%Change This Week
21-Dec	\$2.1970	\$0.0880	\$0.1615	+7.86%
22-Mar	\$2.2195	\$0.0865	\$0.1555	+7.46%
22-May	\$2.2245	\$0.0850	\$0.1530	+7.29%
22-Jul	\$2.2260	\$0.0840	\$0.1525	+7.23%

Coffee Market

The C market saw fresh seven-year highs this week as prices surged over the last few days. Week to week gains were just shy of 8% as prices moved sixteen cents higher. The reasons behind this surge are not related to the physical supply picture though and are all financial. Larger speculators have been steadily buying the market all week ahead of today's option expiration. What that exactly means would take much longer to explain than these two paragraphs afford but in the simplest terms it was a short squeeze. As prices moved higher people got short the market with today being the day of reckoning, and those shorts were forced to buy the market to offset their positions. Monday should certainly be interesting. On the physical side of the market, there is little to no activity. Despite the C market surge differentials have not eased in any material way. The only business remains focused on spot availability to offset shipping delays. Shipping, especially out of Brazil, remains a major challenge and there seems to be no relief in sight. This is the major contributing factor in the firmness on differentials. Crop development seems to be going well in Brazil with rains having normalized in recent weeks. There is some optimism that the frost damage will remain contained in the 5mm bag range though it will still be weeks before that is truly known. Central American crops are underway and usually this would start to see some pressure on differentials in a normal market. As we keep getting reminded though there is little that is normal in our current market. The macro picture remains supportive overall given the inflationary backdrop.

Technically the market obviously settled in a strong positive stance. The seven year high comes as the market broke out of a long forming triangle formation off the July highs. Buy signals were issued by many indicators this week and the recent sideways activity prevented any overbought tendencies. At this point chart patterns are a little inconclusive on exactly what this move is but a short-term target toward 235 seems reasonable. Bigger picture the long-term charts still point toward 255 as a potential high. At this point would view any pullback into the 210/200 range as an opportunity to extend needed coverage. Would expect a low end of the range to develop around 180 or so for the coming year but testing those levels may be some months away. Worth noting that volatility is on the rise after this week which could make for some interesting days ahead.

Tea Report

Challenges across the tea world continue this week. In Argentina, the season was off to a good start but has since slowed. The season started with good rainfall but cool weather. It's turned dry and warm. There are discussions that La Nina will impact this year's harvest which is causing concern among producers. Logistics continues to be challenging. Rates have somewhat stabilized for the moment, but other issues have risen. Food grade containers are becoming scarcer as government is limiting imports due to foreign exchange reserves. As far as auction rates, Kenya saw good demand this week only leaving 14% of the 183,167 packages offered. Quality remains the main driver of prices with brighter well-made teas selling at steady rates while others sold at irregular or lower rates.

