FRIEDBERG'S

Volume 28, No. 7D **August 26, 2026**

Friedberg Mercantile Group Ltd., 600-220 Bay Street, Toronto, Ontario M5J 2W4
Toronto area: 416-350-2903 Toll-free: 877-877-0906

Coffee: the bull is back

In early June, Arabica coffee prices were trading at 18-month lows. The 2026-27 Brazilian crop is the on-year of the biennial cycle. A recovery from a dismal harvest in 2025-26 seemed to be heading in the right direction. Somewhat counterintuitively, prices are now trading at one-year *highs* (Chart 1).

We are just about through the risk-of-frost season. The lowest-forecast temperature for the next 10 days in Minas Gerais, the largest producing state, is an overnight low of 17°C. Production estimates continue to range between 47 million and 49 million bags. At the high-end, output would exceed the record achieved in 2020-21 (Chart 2).

There have been several developments that can account for the recent rally. Several months ago (see *Focus on Futures*, June 30), we expressed concern for our then-bearish stance regarding the low level of US Arabica warehouse stocks. We argued that with the new crop on the way, inventory replenishment was just around the corner. To date, that has not materialized (Chart 3). At below 300,000 bags, stocks are now back down to the level they were at when the bull market began in 2024.

There have not been any recent production updates for Brazil. For most of the growing season, the weather was optimal. However, as the harvest progressed, there was unseasonal precipitation in June and July, which has two ramifications. Drying of harvested beans becomes a challenge, which could result in poor quality and lower yields. In addition, the harvest has been delayed. As of mid-August, the Arabica harvest was 86% complete, compared with a five-year average of 94%.

The delayed harvest factor is a temporary issue, but sub-par yields, the result of poor drying conditions, are not necessarily so. Over the next few weeks fresh output estimates will be published, and we suspect that the range of estimates will shift lower from the current 47 million to 49 million bags.

Colombia is the world's second-largest producer of Arabica. Periods of excessive moisture and high temperatures attributed to El Niño resulted in a smaller 2026-27 crop. Output is estimated at 12.5 million bags, about 10% below 2025-26. Like Brazil, moisture compromised the drying process and delayed the harvest. To exacerbate an already troubled season, on August 10 the country experienced a 7.4-magnitude earthquake. It appears that the actual crop was not damaged, and the harvest was able to proceed. Shipping infrastructure, however, was affected.

In itself, the loss of 1 to 2 million bags of Colombian Arabica and backed-up shipping is not too big a deal. But when combined with a potential downgrade for Brazil, the supply side does not look as bountiful as it did in late May with prices trading about 35% below current levels. It is quite true that harvest and shipping delays are surmountable problems and explain, at least in part, the low level of US inventories. But market participants are concerned about the

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supply side evidenced by the formation of a formidable backwardation (Chart 4).

We believe that a lower 2026-27 Brazilian output revision is in the cards. Perhaps far more important, though, is that we are not done with El Niño. September and October are the key flowering months for 2027-28 South American coffee crops and meteorologists have warned that heat and insufficient precipitation are definitely risks.

We covered our short position just before the explosive rally, as per our June 8 recommendation. With December coffee currently trading at $3.28 per pound, we now suggest establishing a long position. Place initial sell stops at $3.00, close only.

Sholom Sanik

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Chart 1 – ICE December coffee

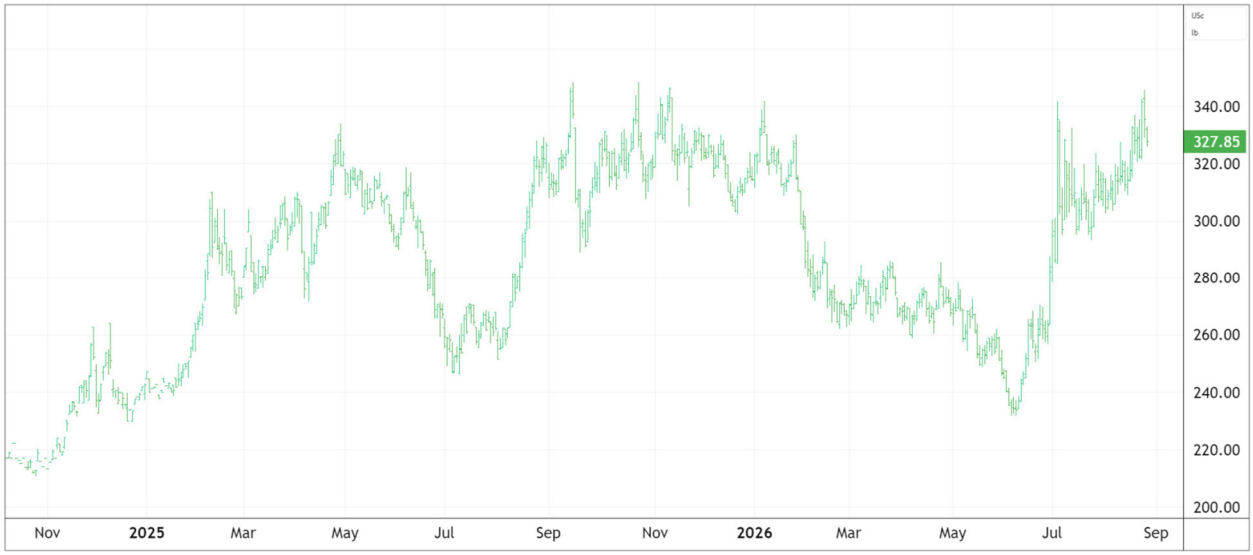


Chart courtesy LSEG

Chart 2 – Brazilian coffee production

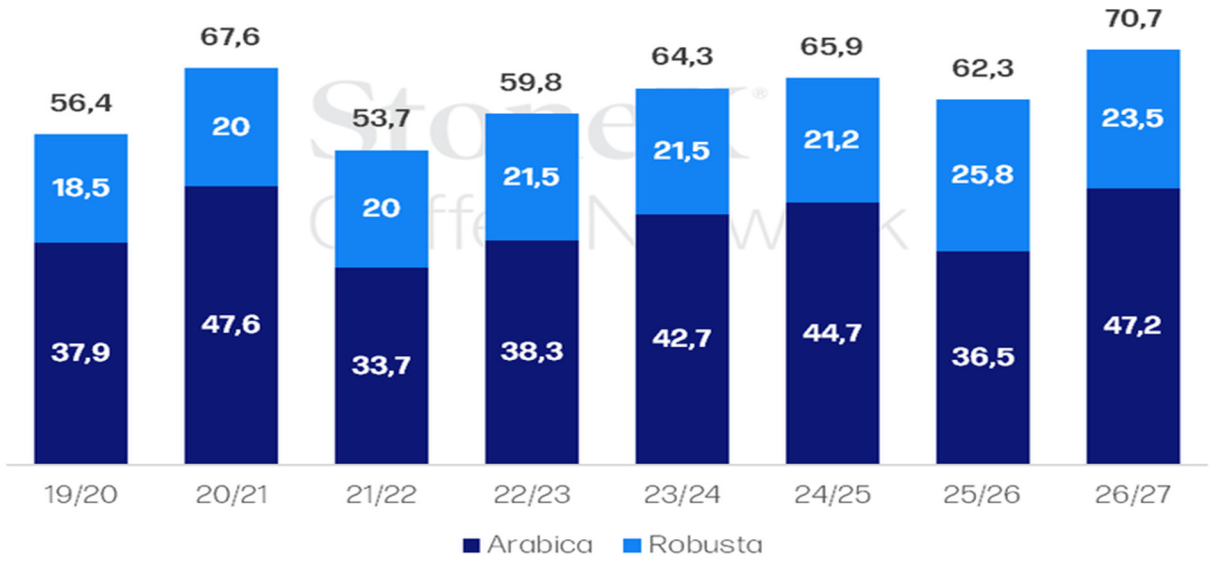


Chart Courtesy StoneX

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Chart 3 – US coffee exchange warehouse stocks

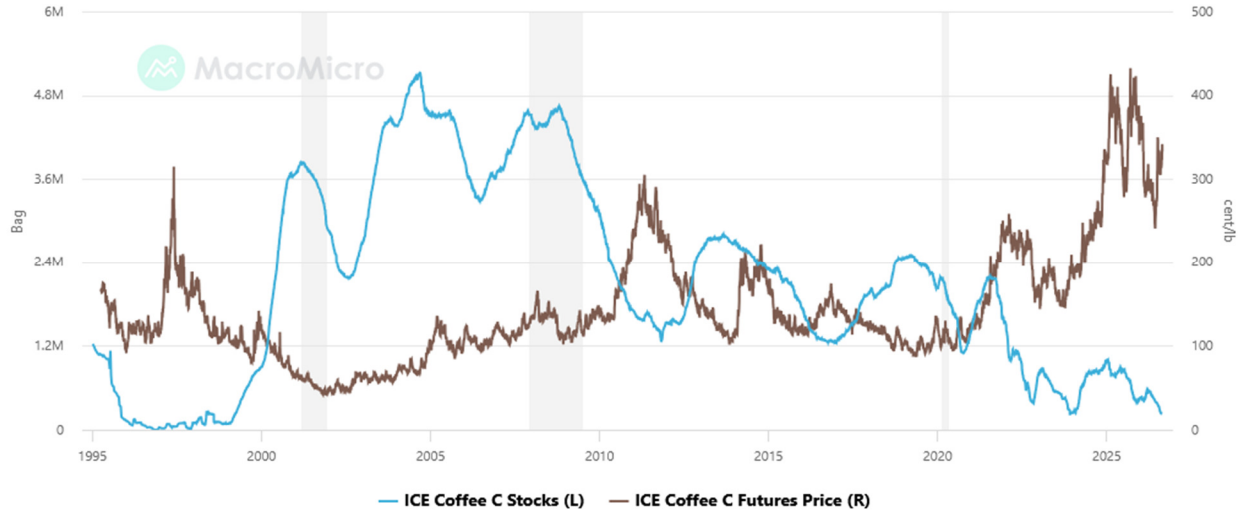


Chart courtesy MacroMicro

Chart 4 – ICE December/March coffee spread



Chart courtesy LSEG

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