Commodities Spotlight

September 2025

Caffeine Dreams: Drivers Behind Coffee's Meteoric Rise

What happened:

A morning pick-me-up has never been more expensive. Over the past 18-months, global coffee prices have experienced a jolt that would impress even the most dedicated "javaphile." In 2024 alone, Arabica coffee prices jumped 79%, and as of the end of August, they had surged an additional 28% so far this year. Rolling the calendar back further shows a cumulative return of almost 200% since the end of 2022.[1] The picture is even more astonishing when looking at Robusta coffee, Arabica's generally lower quality cousin, where prices have more than tripled since 2023. To understand what's behind this rise, we first need a crash course in caffeine. Arabica coffee, which makes up approximately 60–70% of global production, is generally favored by consumers for superior taste and quality and is primarily produced in Brazil. The remaining 30–40% of global production comes from Robusta, a lower-quality variety that is primarily produced in Vietnam.[2],[3] In general, the coffee market has a high degree of geographic concentration, leaving production uniquely exposed to disruption. Further, consumption and production regions are not aligned, with none of the top 5 producing countries appearing as top 5 consumers. The U.S. is case-in-point meeting its demand almost completely with imports, the majority from Brazil and Columbia, according to 2023 data from the U.S. Department of Agriculture.[4] So, what's behind the venti-sized returns for coffee, and what's in store for the future?

Why it happened:

At their core, most commodity market phenomena can be boiled down to a matter of supply, demand and inventory levels. The recent rise of coffee features all three. On the supply side, climate change and extreme weather events in global growing regions are proving disastrous for both Arabica and Robusta yields. The geographic concentration of production means that even weather disruptions that are constrained to a limited area, sometimes even a single region of a single country, can have a disproportionately large impact on global coffee production. For example, Brazil, the world's largest Arabica producer, experienced a combination of historic droughts and heavy rains in 2024, causing harvest to fall dramatically.[5] Moreover, rising surface temperatures are shortening the maturation cycle for both Arabica and Robusta beans, reducing availability of minimum quality beans available for roasting and consumption.[5] Changes in temperature also increase risks to the crop from pests and disease as these changes may create conditions where these threats thrive.[5] Taken together, supply risks have trended higher, bolstering the case for higher prices.

In general, higher prices discourage consumption, rebalancing markets, and capping upside price potential. However, when it comes to coffee, this time really is different. Despite the rapid increase in price, demand has remained remarkably steady. Anyone who enjoys a cup of joe will know the reason why; coffee is a culturally embedded staple with few substitutes, making the expected changes in demand in response to changes in prices, a relationship called "elasticity," quite low. According to Euromonitor, a think-tank that conducts research across a wide range of industries, a 1% increase in price has historically led to only a quarter-percent drop in demand.[6] Other studies have shown price increases acting as an even smaller demand deterrent.[7] Even the most promising mismatch between declining supply and resilient demand might not result in higher commodity prices if there is ample inventory to fill in the gaps. A check-in on warehouse stockpiles is required to complete the puzzle.

As expected, challenged supply and resilient demand have combined to create a call on inventories, and visible exchange stock have dwindled. In fact, exchange inventories have been at 20 year seasonal lows for each of the last 4 years. Scarce inventories reduce a readily available source of supply and can allow prices more room to run to the

[1] Bloomberg, as of 29 August 2025.
[2] U.S. International Trade Commission, *Is Robusta on the Rise? Trends in Coffee Species Trade*, January 2024.
[3] U.S. Department of Agriculture, *Coffee: World Markets and Trade*, June 2025
[4] U.S. Department of Agriculture , *U.S. demand for coffee stimulates imports from Latin America*, 26 September 2024.
[5] Asez, *The Collapse of the Coffee Belt*, 03 March 2025.
[6] Euromonitor.com, *Demand Protects Coffee and Tea Industries, But for How Long?*, 14 April 2022.
[7] Economics and Sociology, *Changes in Perception of Coffee in EU: Luxury Good Turned Inferior*, July 2022.

upside when fundamentals tighten. The fact that disparities in coffee-producing and coffee-consuming regions require global trade means the recent changes in tariff policies are having an effect too. In August, the Trump administration imposed a 50% tariff on imports, including coffee imports, from Brazil. In response, Brazilian producers have begun withholding shipments to the U.S. as they negotiate with American roasters over who will absorb the added cost. This standoff has stalled the signing of new contracts and shipment of beans, expanding local Brazilian inventory, and effectively reducing available supply in the U.S. market.[8] Unlike other commodities subject to U.S. tariffs, such as steel, domestic production is not a viable response to higher import prices as coffee can only grow in very specific climates. In fact, the U.S. produces a small amount of coffee only in Hawaii – just 50,000 bags in 2024, representing a mere 0.03% of global output – nowhere near enough to meet domestic demand.[9]

Our view:

If the current market dynamics hold, there is potential for supportive conditions to persist for some time. However, near-term fundamentals are potentially being distorted by artificial tightness in the U.S., due to constrained imports and bullish sentiment which may have run ahead of actual fundamentals. This near-term tightness is driving strength in front-month contracts versus deferred contracts – a market structure known as "backwardation" – which may become more pronounced if growers withhold the shipments. However, because at least some portion of the tightness is being driven by beans being withheld from shipment, rather than beans not existing, inventories could potentially be released into the market suddenly, especially if tariff negotiations progress or policy shifts occur. This scenario could flood the market with supply, rapidly reversing the backwardation and putting pressure on near-term contracts. In this context, any signal of tariff relief could present an opportunity to position for underperformance in near-term contracts relative to deferred ones. Moreover, although coffee has historically been price inelastic, there may be some price level at which this resilience starts to fade, particularly as coffee prices reach record-breaking levels. If consumer behavior did start to shift, it might accelerate a broader correction and potentially tip the market backdrop from bullish to bearish.

[8] Bloomberg, as of 19 August 2025.
[9] U.S. Department of Agriculture, Coffee Production 2024/2025.

Acquisition of O'Connor, a distinct business unit UBS Asset Management (Americas) LLC by Cantor Fitzgerald Asset Management

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