Supply and Demand

Coffee Perspective

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Cecafé
Conselho dos Exportadores de Café do Brasil

COMEXIM

Where is the Expected Tightness?

Who is Driving the Move?

COMEXIM

- Lower crop in 15/16 and expected smaller 17/18 not so small?
- Consumption In Mature Markets down?
- Macro influences?
- Risk off ?
- Pure S&D ?
- Positioning being anticipated for 18/19?
- How about the Brazilian Internal Demand?

ICE Robusta
2nd Position

2016 / 2017
The Failed Mother of All Crops

- After 2014 drought all pointed to a bumper 2016/17 crop – “The Mother of All Crops”
- Arabica was the Mother – record production in Brazil
- Conilon suffered, “disappointing” the total outcome
- 2012/2013 and 2016/2017 similar quantities
- After the flowering in 2015 the “C” market lost about US$ 20 cents/lb (from US$ 140.00 to US$ 120.00)
- Even though the BRL melted from below R$ 3.20 to R$ 4.10 against the US dollar

Colombia, Honduras, Brazil and Vietnam

- Colombian replanting program started to show the positive effects on production
- Honduras sprouted with good potential
- Brazil agricultural /export sectors benefitted, besides turmoil
- Invisible inventories surprised the market and became “visible”
- Mild production catching up but falling behind due to losses of once key origins

Brazilian Exports

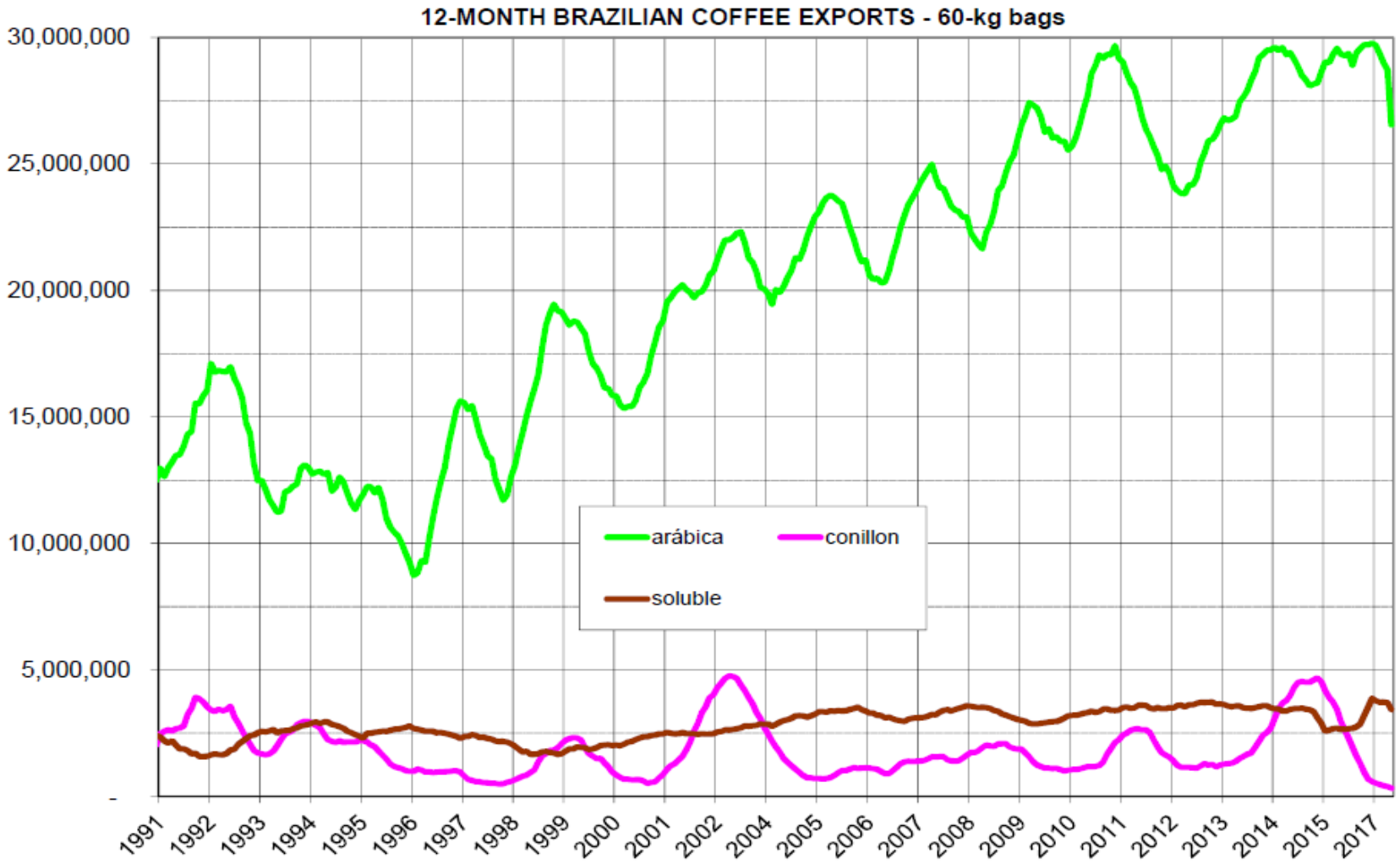
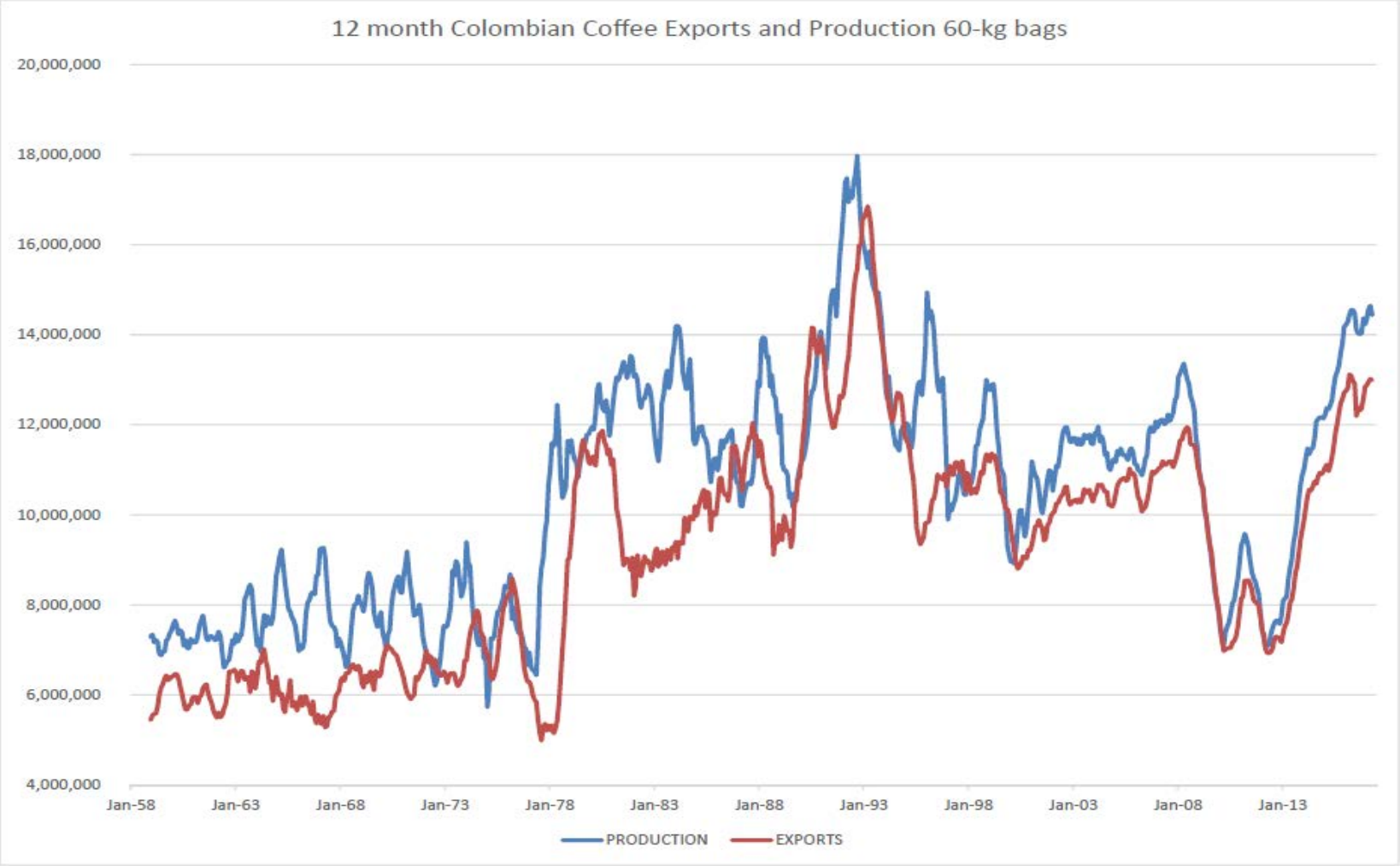


chart by: ***diego.guadalupe@sgcib.com***

Colombia
Production and Exports



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Honduras Exports

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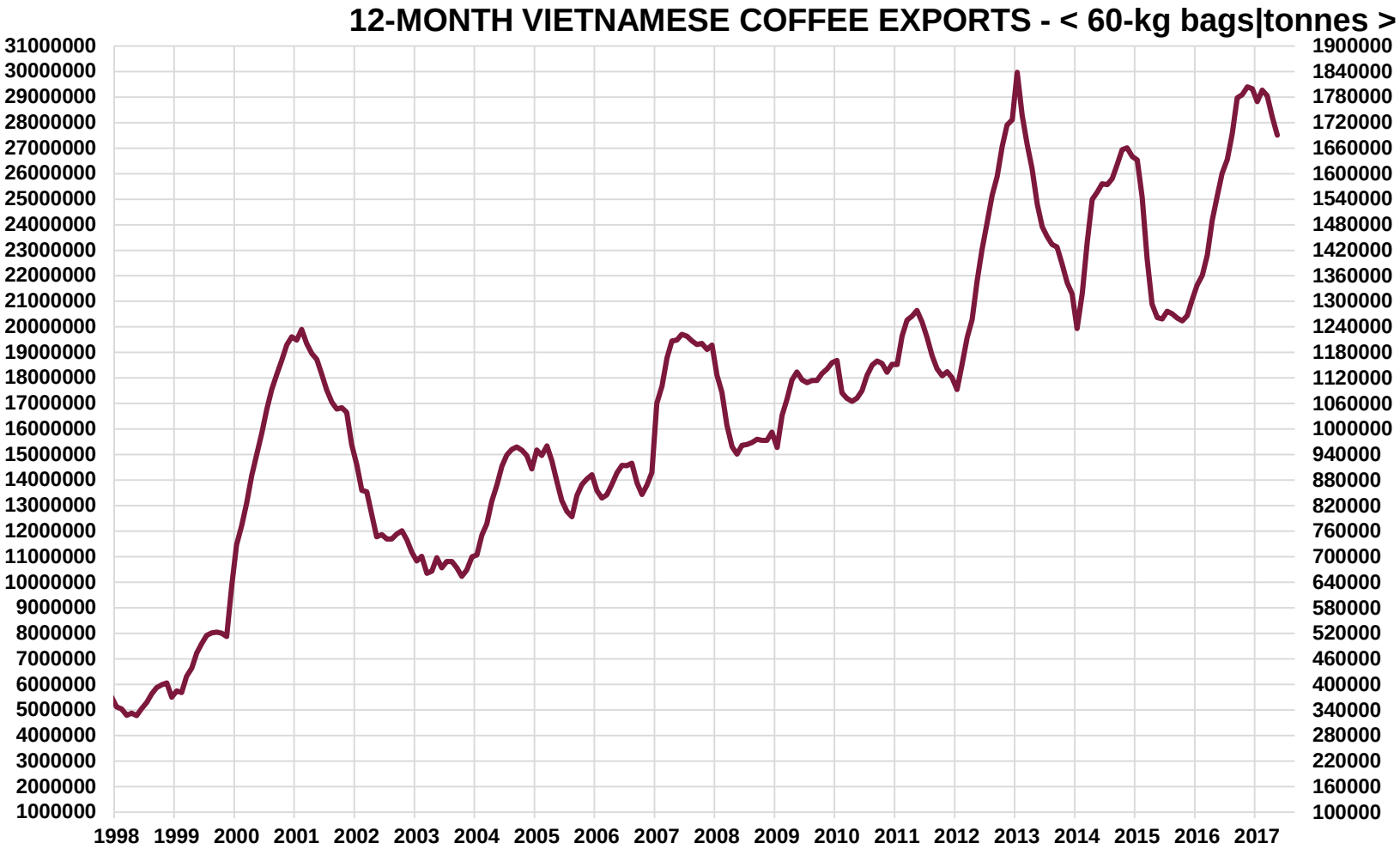
Vietnam Exports



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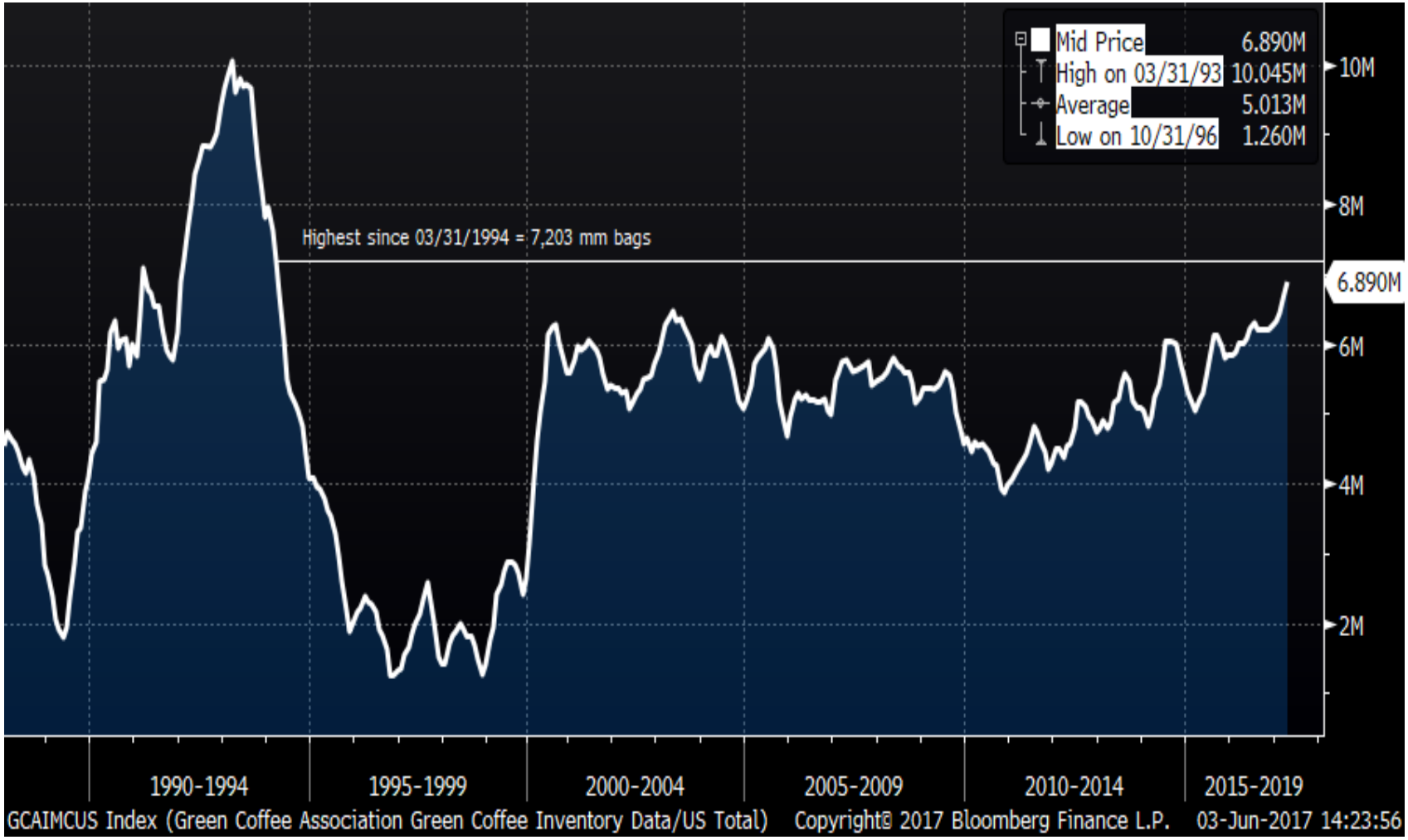
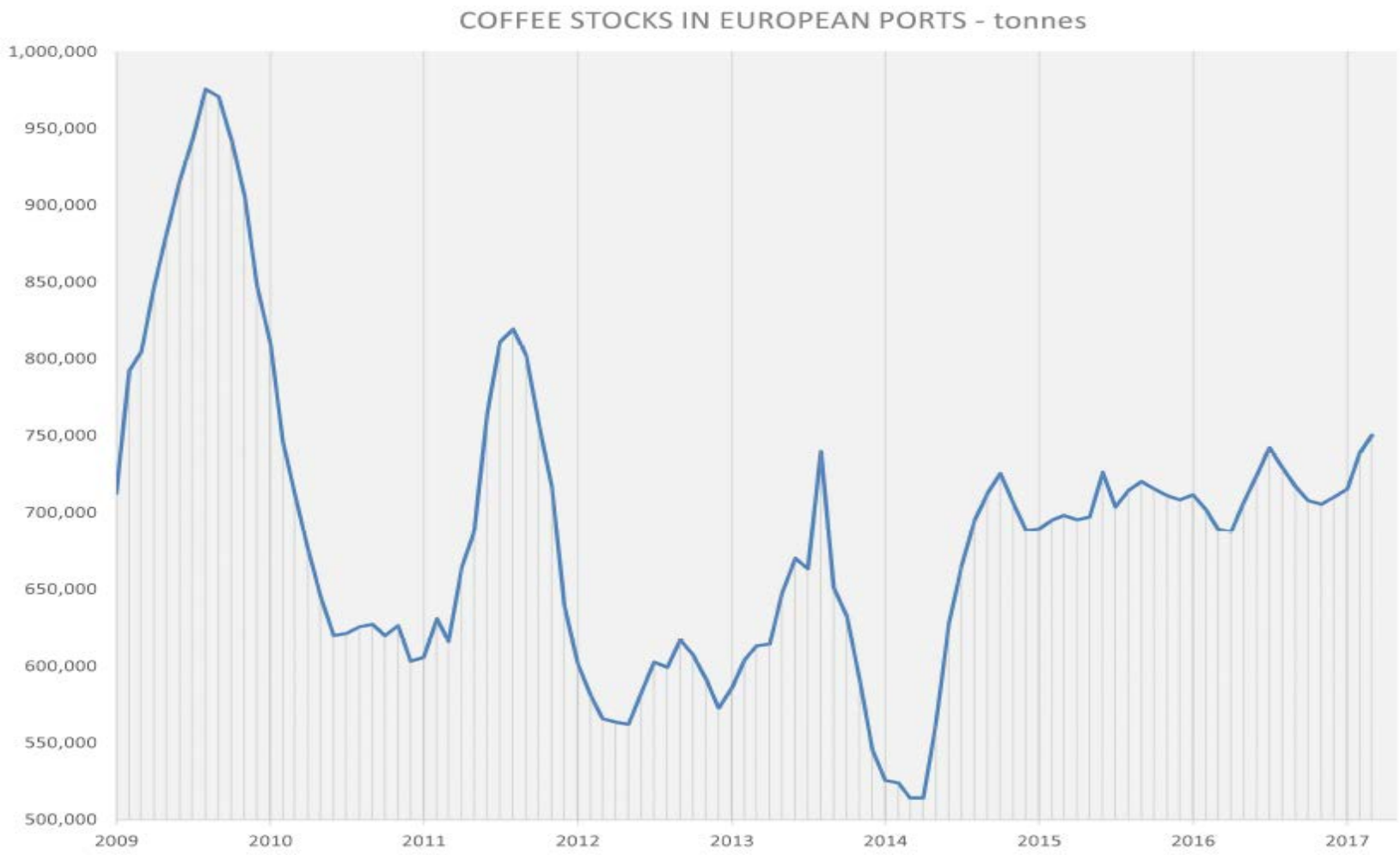
How about Demand ?
Strong but not so much?

- **Inventories at 24 year high in the United States**
- **In Europe and Japan stocks are similar to mid-16**
- **Certified stocks rising again**
- **Is it just a function of transferring stocks due to higher prices of the board?**
- **US dollar strength impacting in Europe and Japan?**
- **Changes of Behavior maybe?**

Inventories in the US Green Coffee Association (GCA)



Inventories in Europe
European Coffee Federation (ECF)



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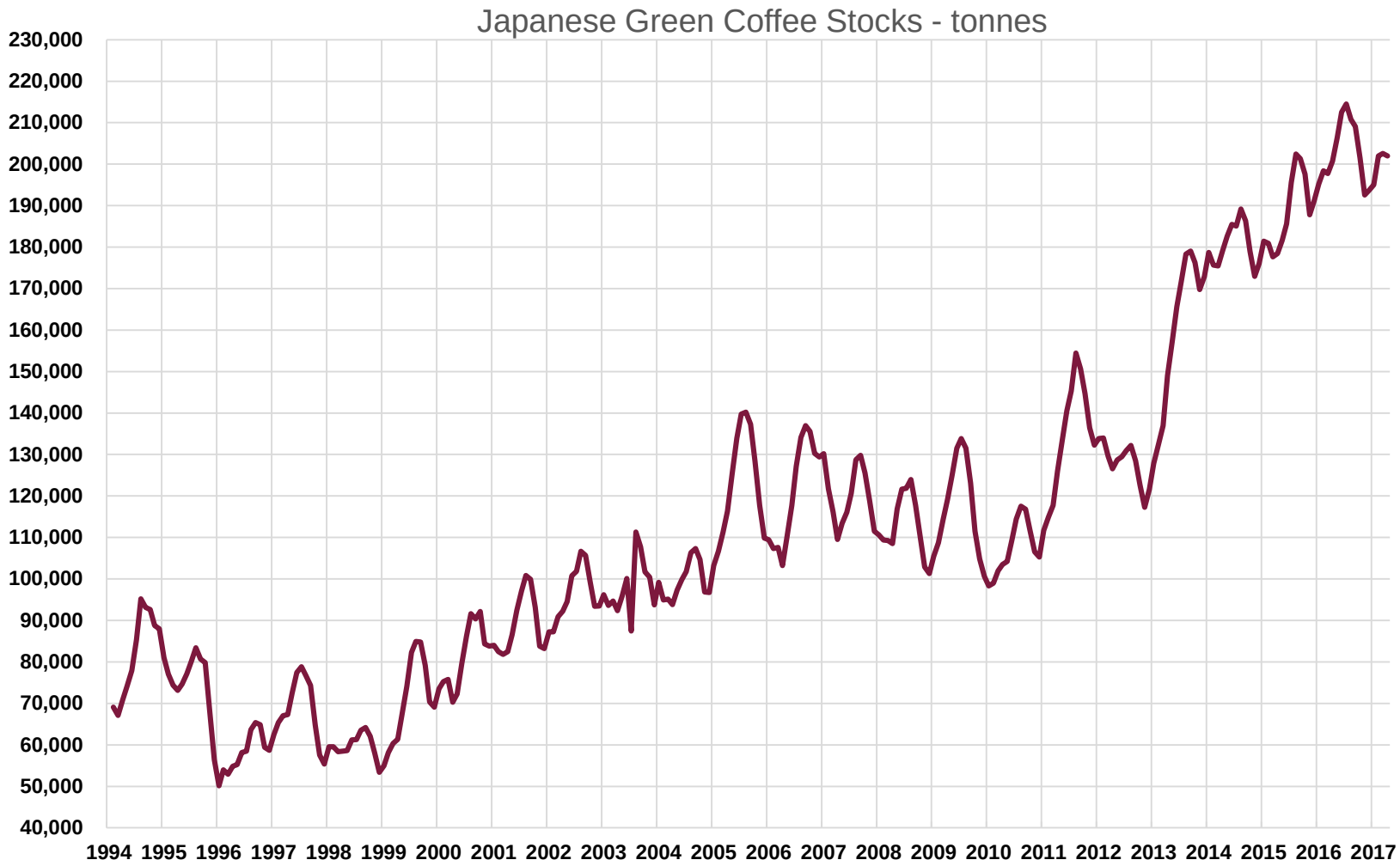
Inventories in Japan
All Japan Coffee Association



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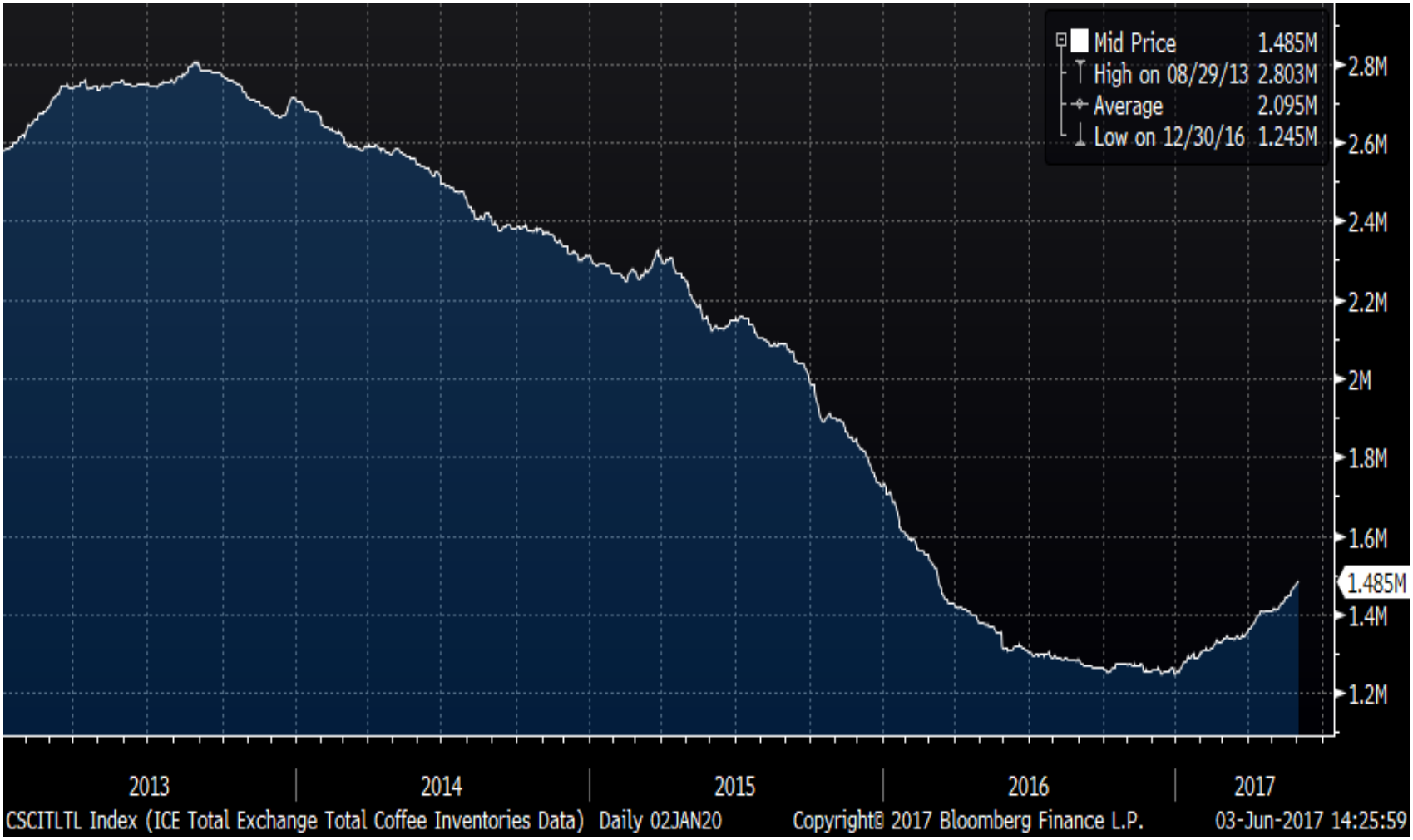
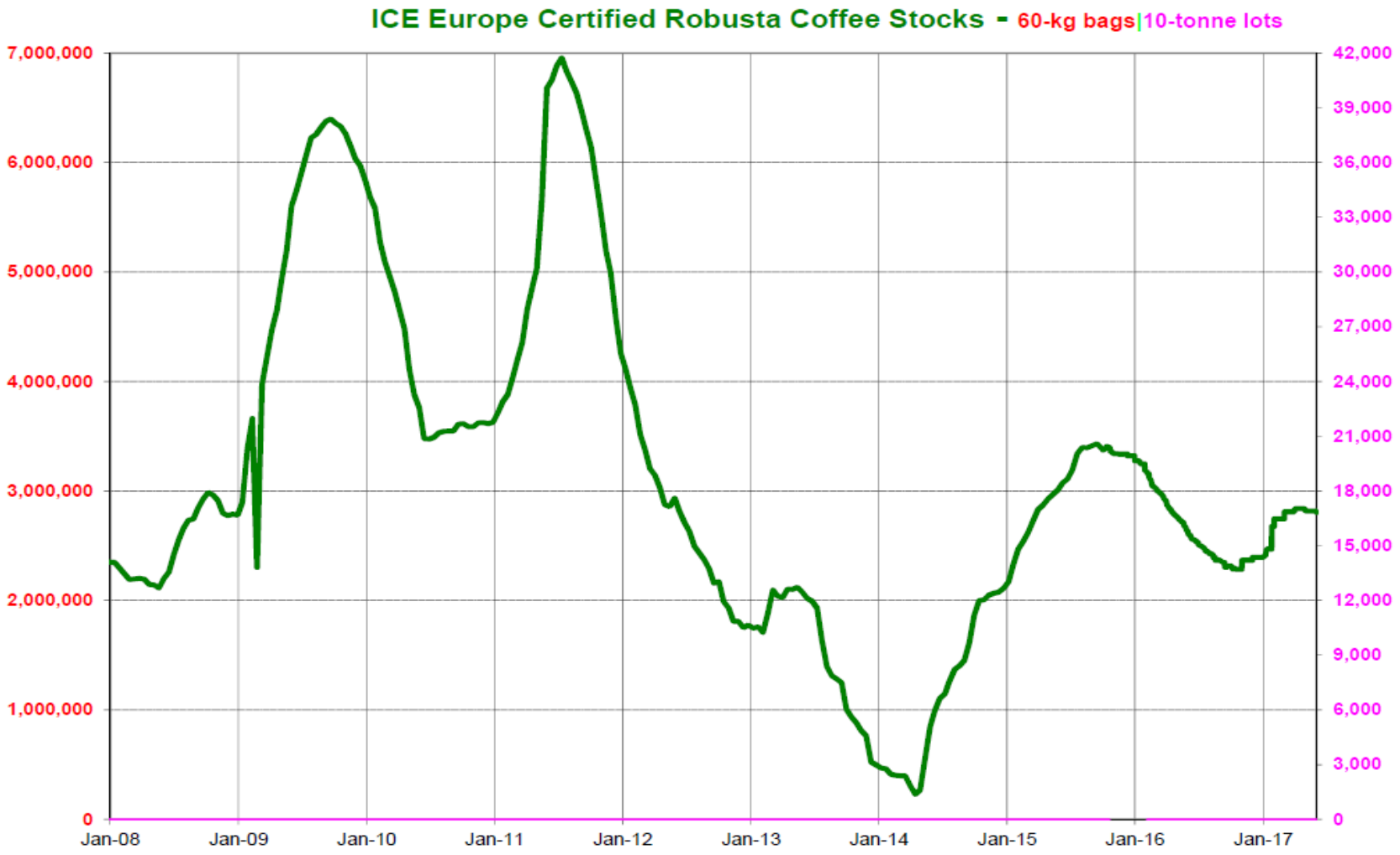
ICE Coffee "C" Certified Stocks



Robusta
Certified Stocks



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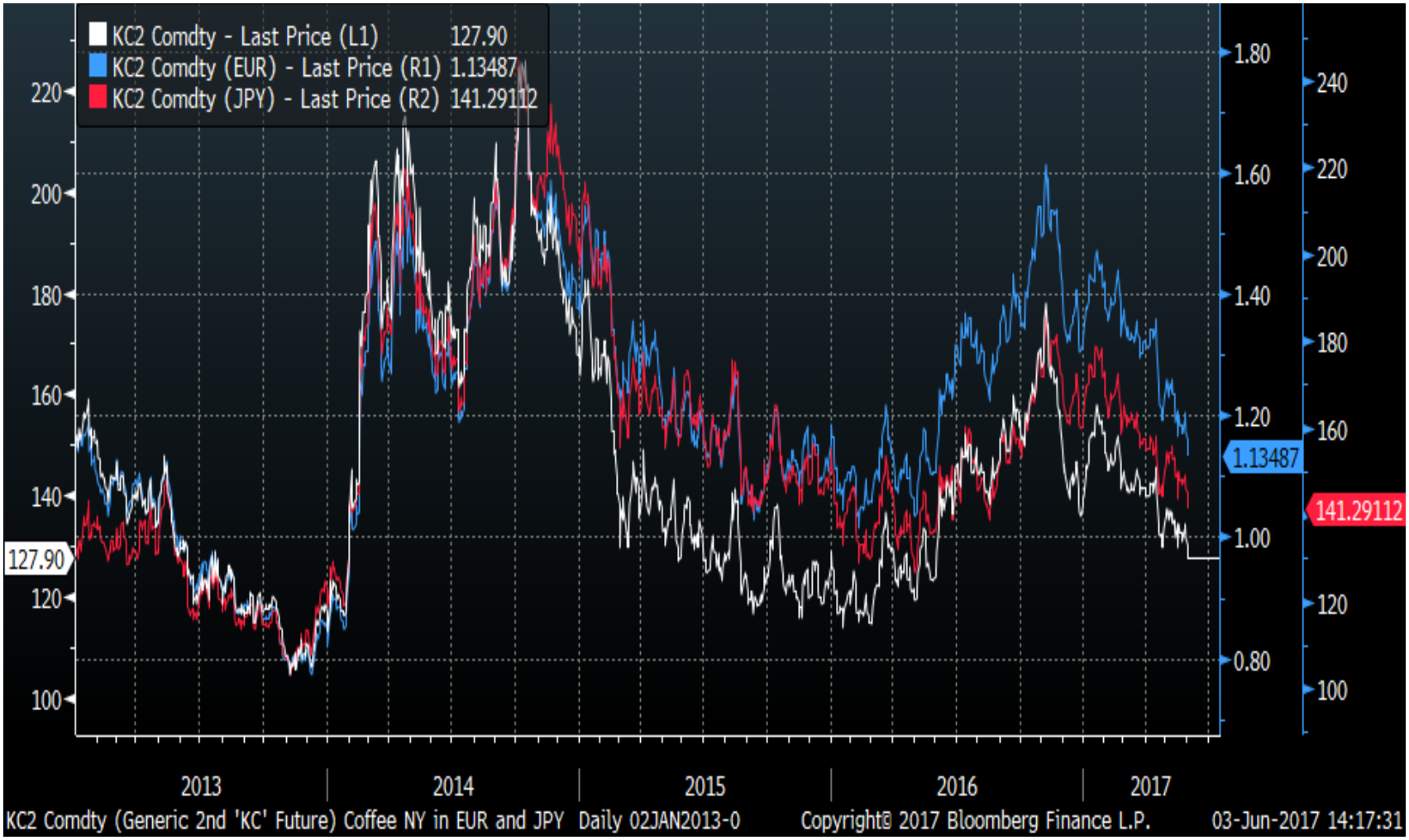
Impact of Currency for Europe and Japan



Demand Behavior
Improving "Yields"

- Punctual signals of weaker demand, but for "gourmet" coffee
- Perception of "gourmet" not necessarily related to the specialty portion of the market
- Specialty growing steeply – concept vs reality for commercial players
- Way of preparing/drinking coffee most of the time defines the category
- Regardless it diminishes waste
- Coffee is not really a commodity

Global
Supply and Demand

Crop Year	Production	Consumption	Balance	Stocks
2012 / 2013	154.8	145.7	9.1	32.7
2013 / 2014	152.5	148.2	4.3	37.0
2014 / 2015	147.6	150.1	-2.5	34.5
2015 / 2016	151.6	152.7	-1.1	33.4
2016 / 2017	153.6	155.3	-1.7	31.7

Production of Arabica and Robusta

Crop Year	Arabica	Robusta	Total
2012 / 2013	90.9	63.9	154.8
2013 / 2014	87.7	64.8	152.5
2014 / 2015	81.7	65.9	147.6
2015 / 2016	83.7	67.9	151.6
2016 / 2017	93.7	59.9	153.6

Brazil, Vietnam Colombia and Honduras

Crop Year	World	Brazil	Vietnam	Colombia	Honduras
2012 / 2013	154.8	57.6	26.5	9.9	4.8
2013 / 2014	152.5	54.5	29.8	12.0	4.4
2014 / 2015	147.6	50.2	28.2	12.5	5.1
2015 / 2016	151.6	49.5	29.0	13.9	5.7
2016 / 2017	153.6	55.0	25.0	14.3	6.3

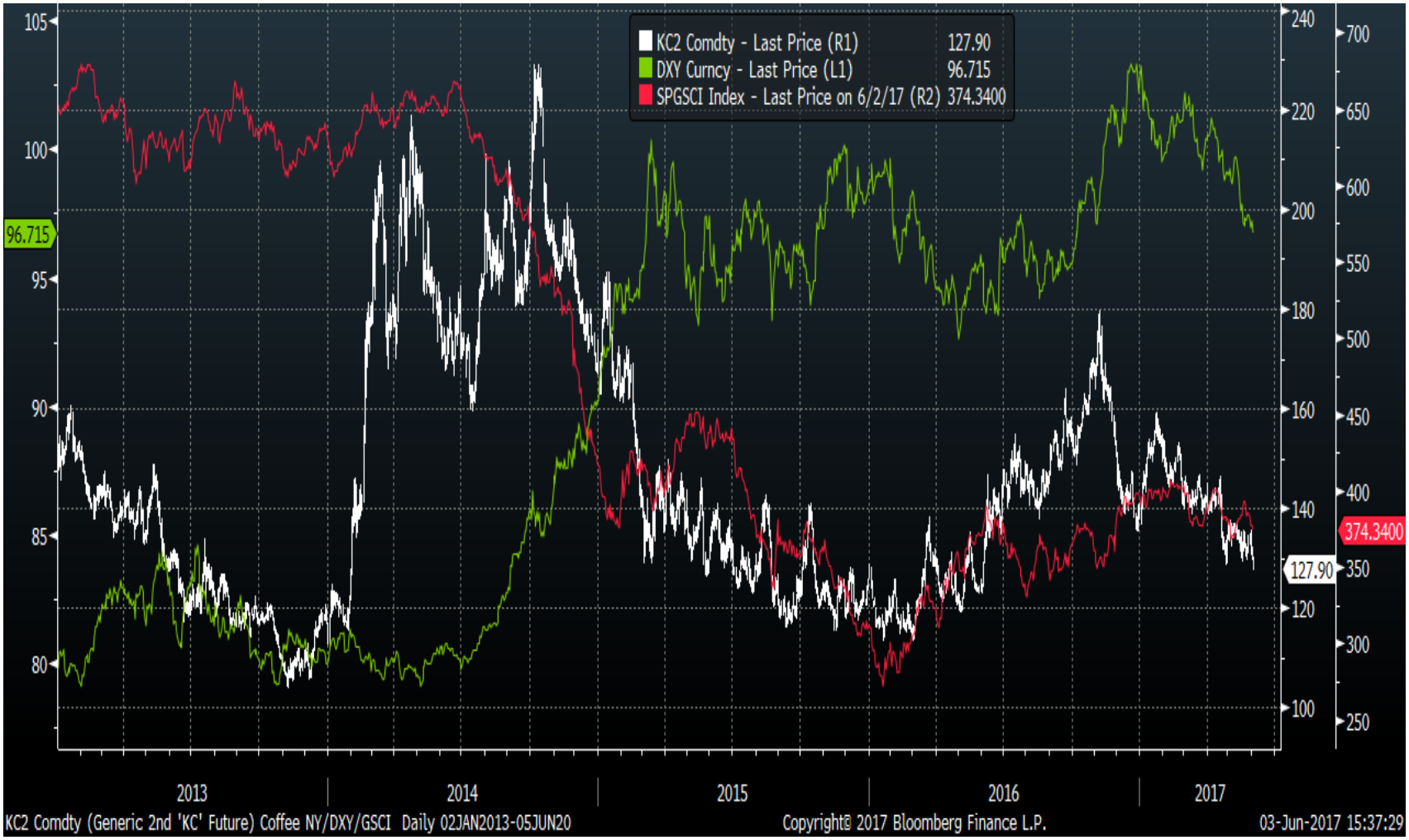
Macro Influences

- Trump trades being unwound (no more inflation?)
- Europe growing better than expected
- FED might not hike interest rates three times as expected
- USD can lose ground further
- Volatility at very low levels on stocks (blind buying, investors buying exposure not names)
- Concentration of names (tech sector)
- Political turbulences

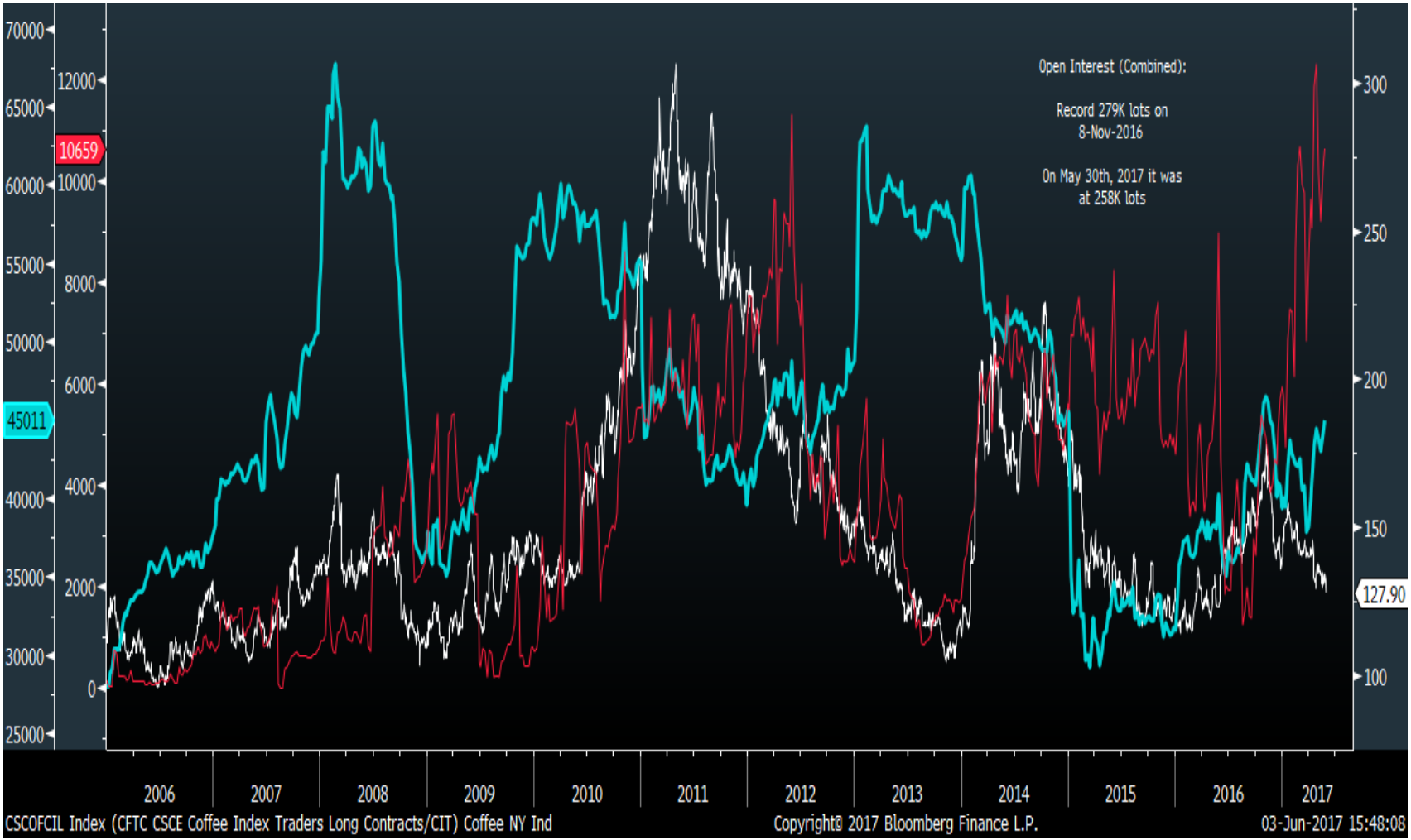
Dollar Index (DXY)

CRB
Commodity Index

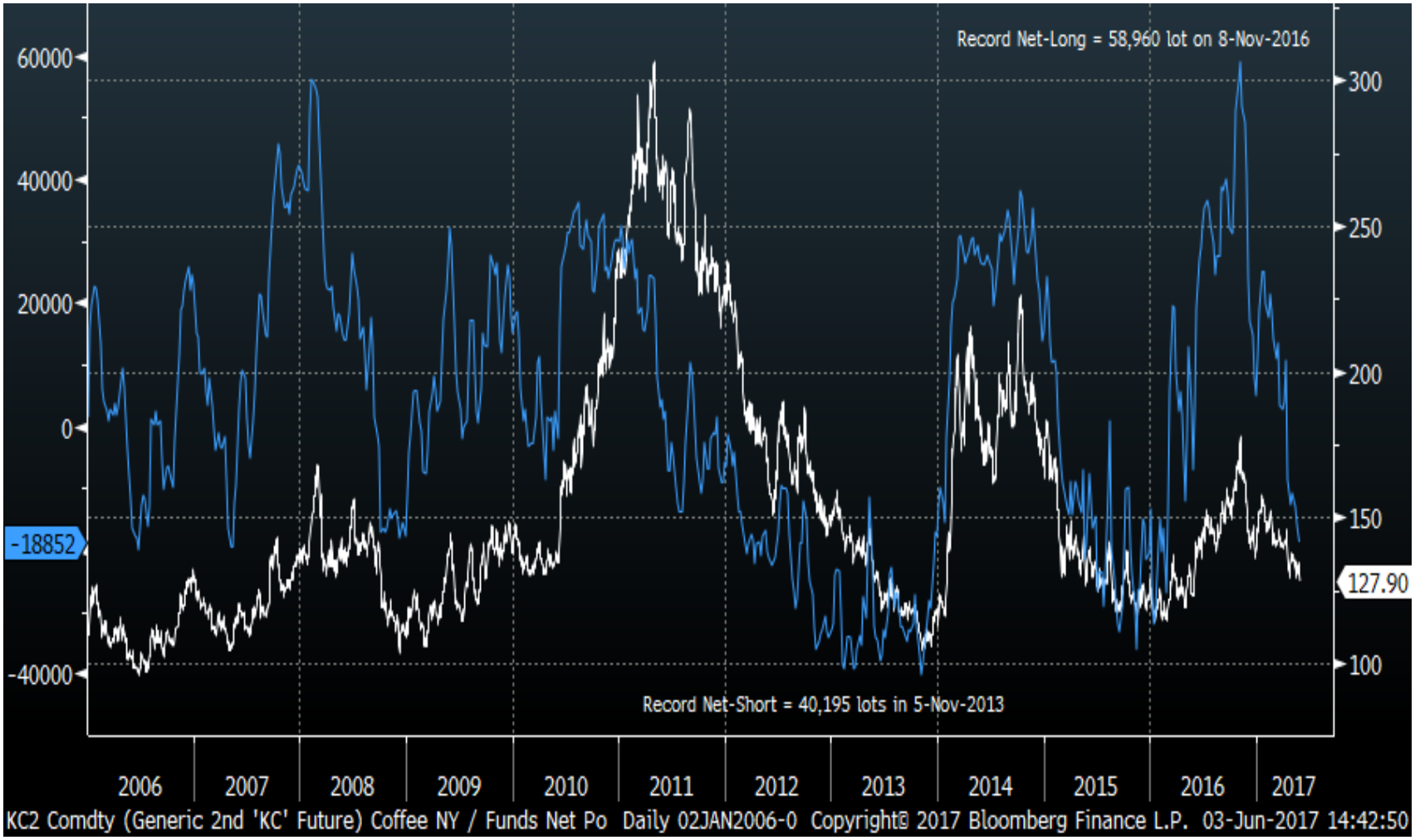
Inverted Correlation with DXY lagging



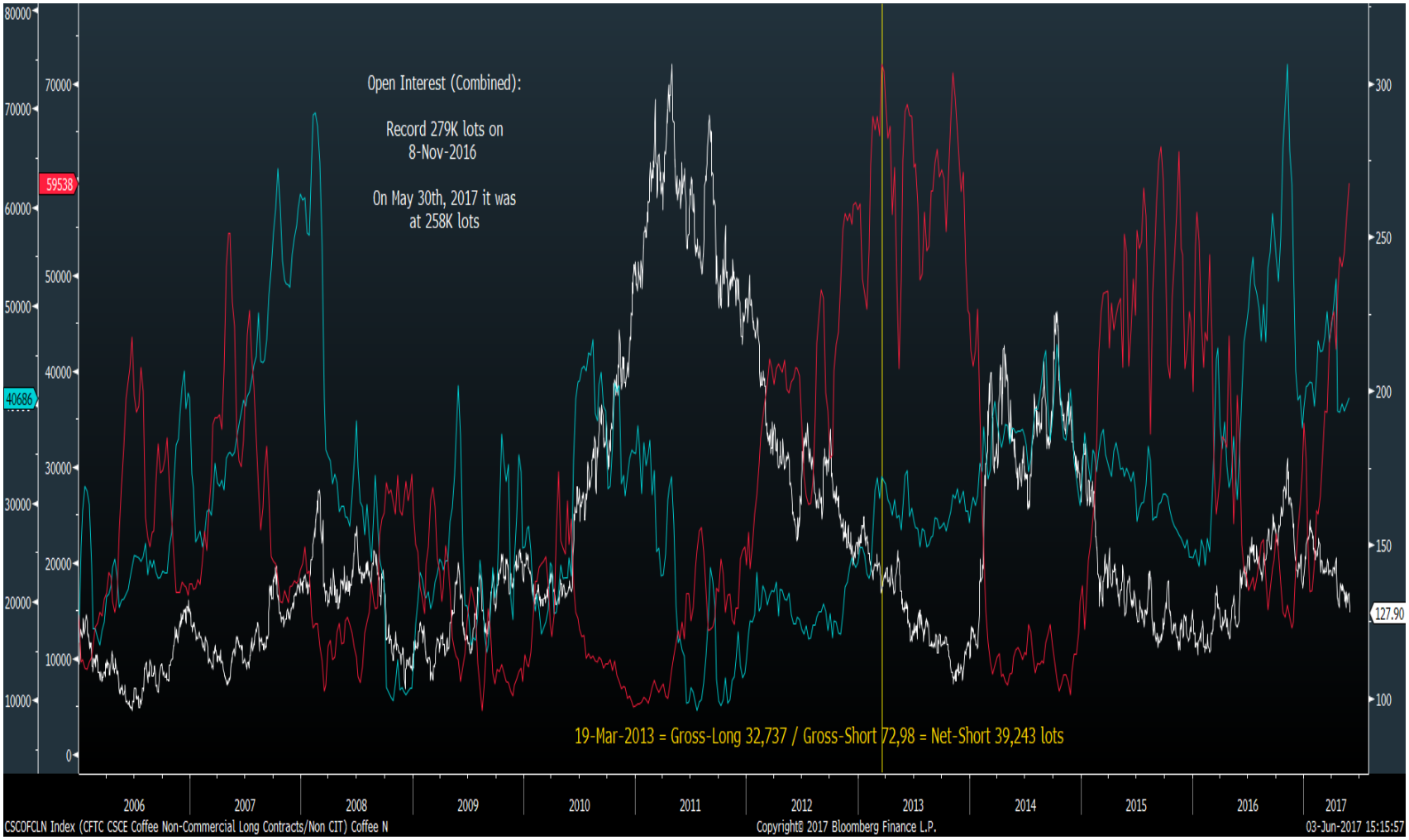
Index Fund Position



Shall we then
Just Blame the Funds?



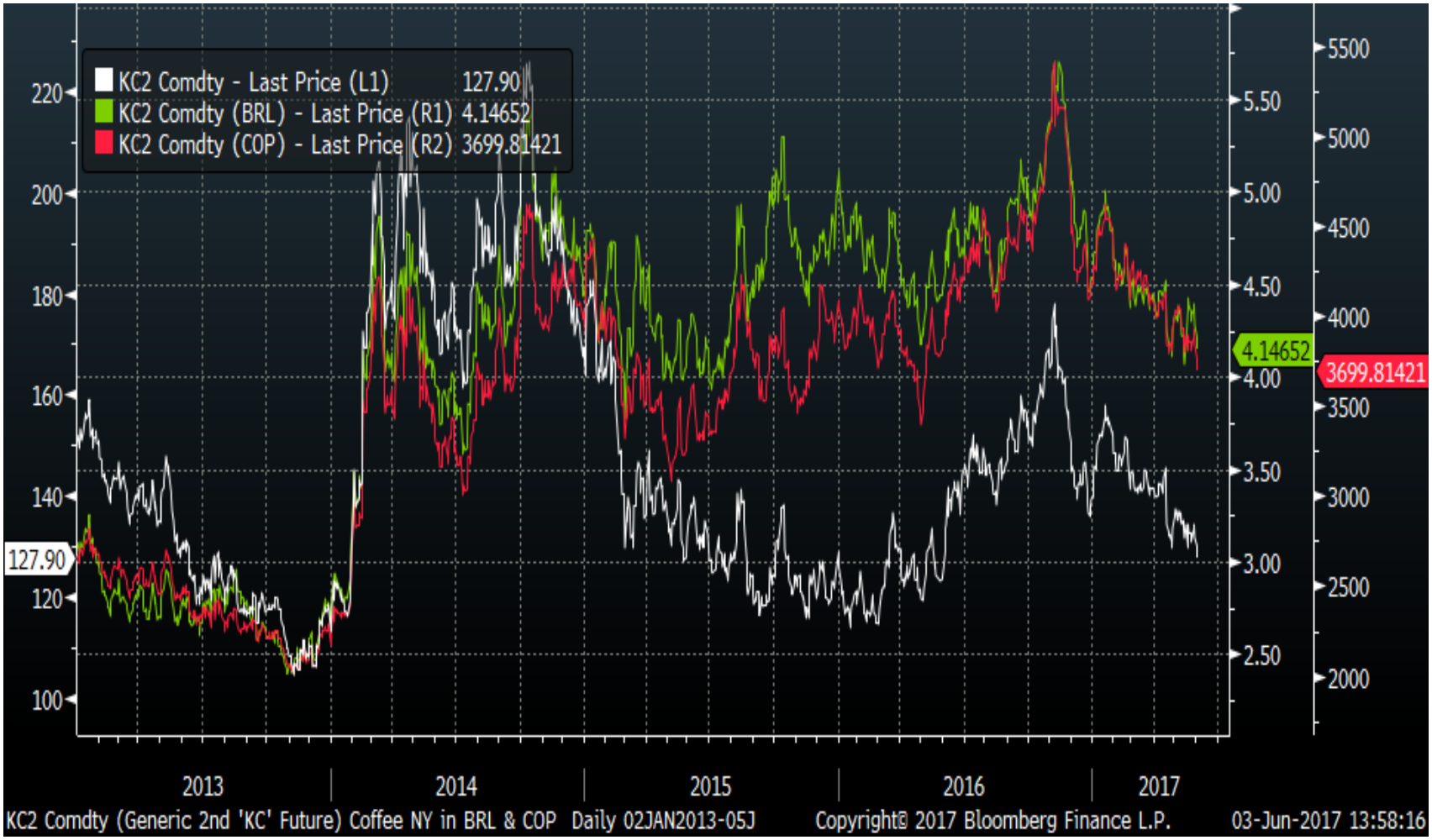
Non-Commercial Gross Positions



Perspectives
Intrinsic to Coffee

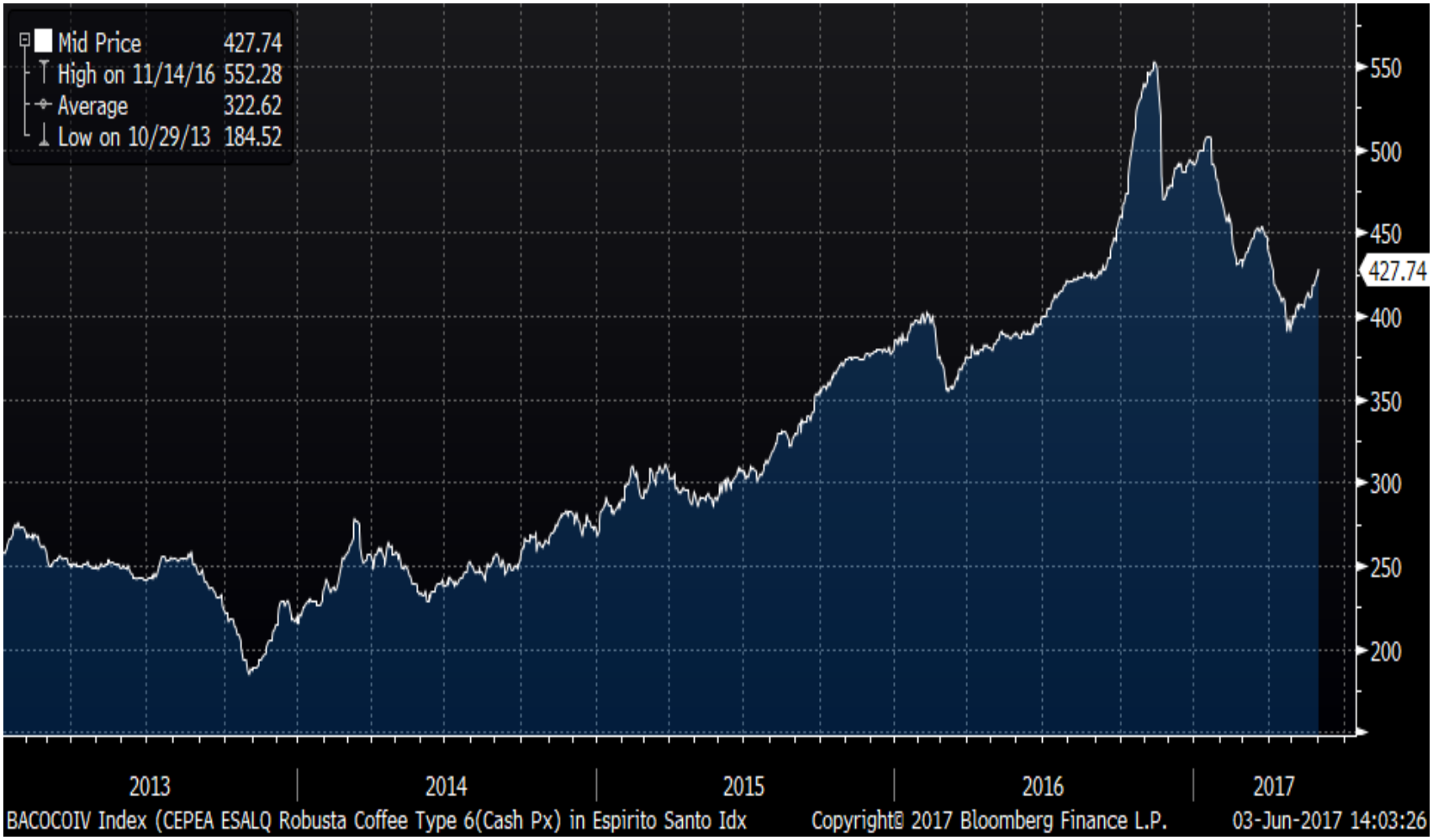
- Prices practiced on origins still encourages treat (FX)
- Pipeline is comfortable in the short-term but can get complicated
- A Mother of All Crops at 65 mm not as negative
- Stock vs Consumption (little room)
- Basis needs to show strength
- Arbitrage NY x London tight
- Brazilian Internal Market could play a role again
- Positioning and Open Interest

New York "C" in USD, BRL and COP

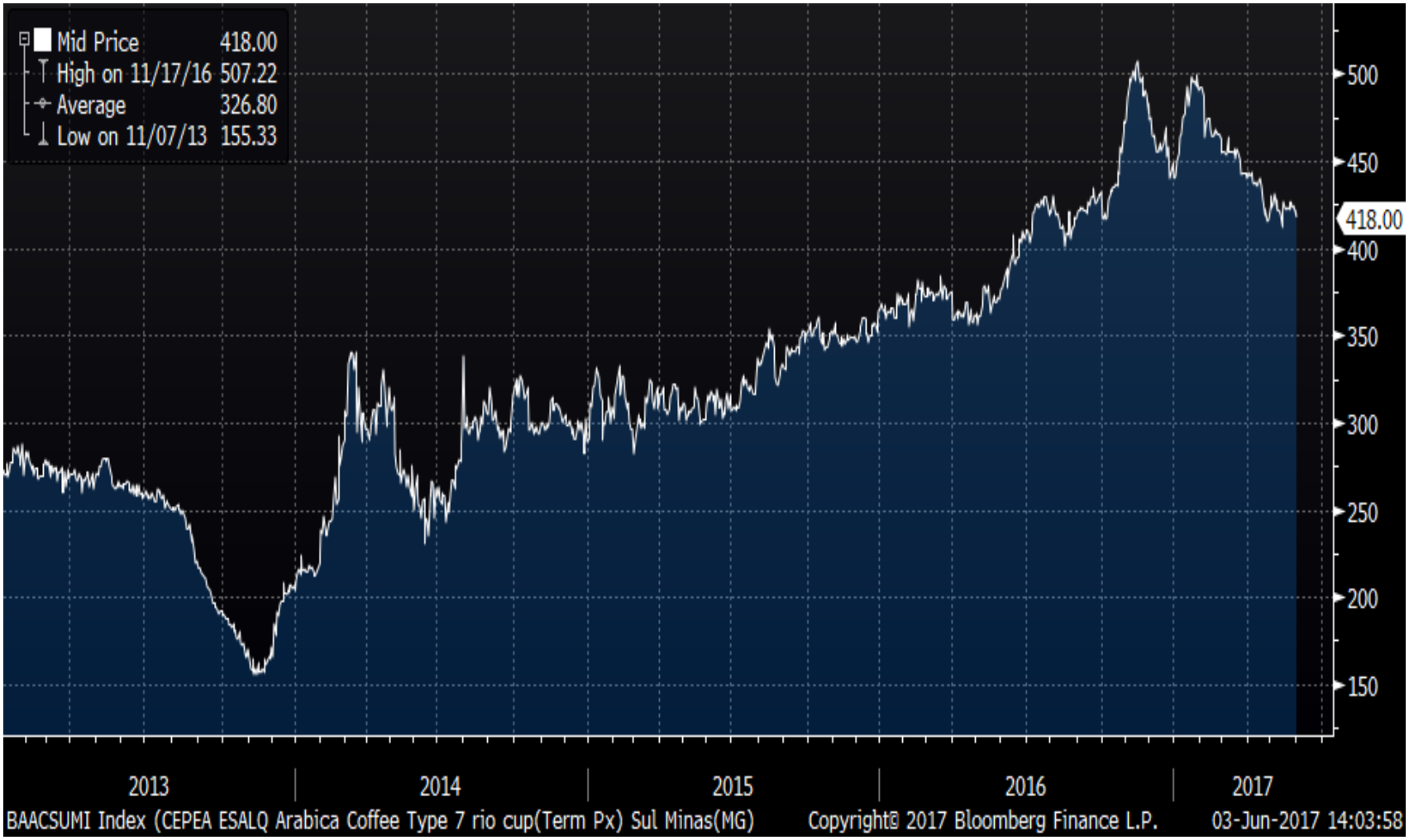


Arabica Type 6
Sul de Minas - ESALQ

Conilon Prices – Type 6 Espírito Santo – ESALQ



Arabica Type 7 – Rio Cup Sul de Minas - ESALQ

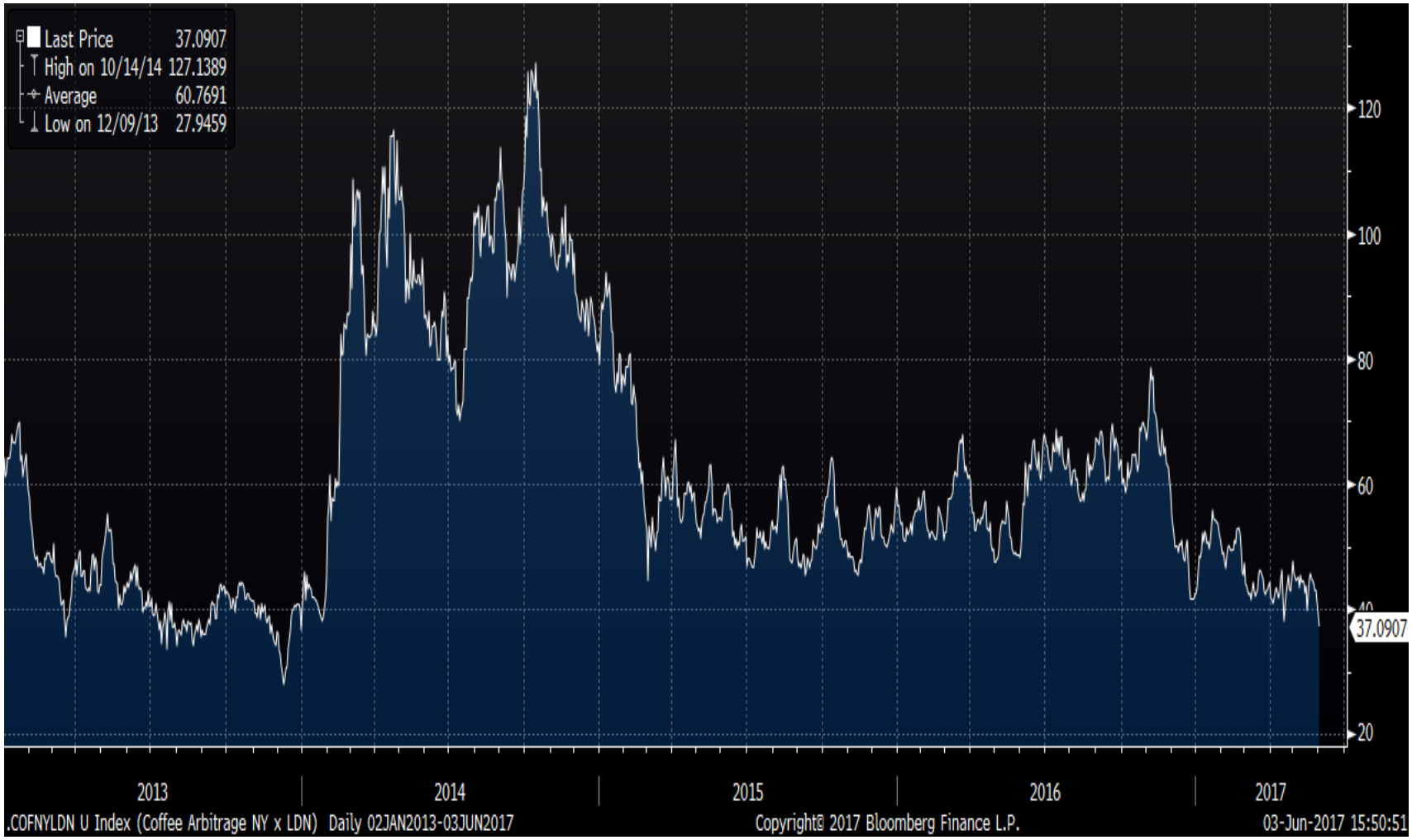


Arabica 600 / 800 defects
Sul de Minas - ESALQ

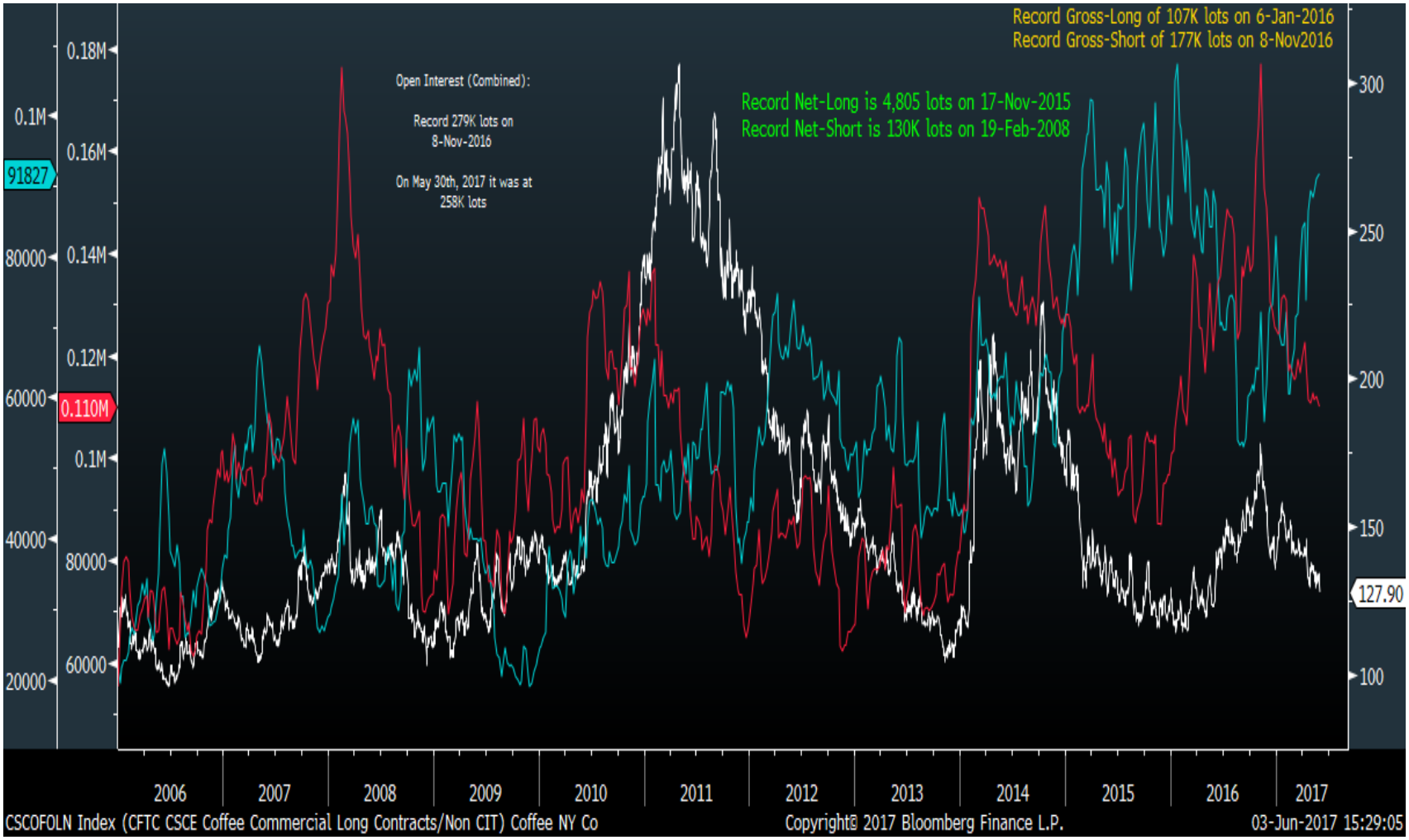
Current Cycle and Upcoming Ones

Crop	Brazil	Vietnam	Col.	World	Cons.	Balance
2015 / 16	49.5	29.0	13.9	151.6	152.7	-1.1
2016 / 17	55.0	25.0	14.3	153.6	155.3	-1.7
2017 / 18	52.0	27.0	14.3	153.8	158.0	-4.2
2018 / 19	65.0	25.0	15.0	165.0	160.5	4.5

Surplus of Arabicas (NY / LDN Arb)



Commercials are Taking Advantage



Conclusion

- Single-serve effect limited - positive in the long-run
- Potential for production growth limited in four origins
- Speculators shortening being well absorbed
- Differentials unlikely to ease unless market reacts
- Weaker USD can also limit further selling pressure – BRL and COP not as weak
- 65 mln of Brazil with a 4.5mln bags surplus and then?
- Much lower “C” refrain further growth of production
- Limited to the upside on the nearby higher from 4Q17

Thank you!

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