



## Rabobank Agri Commodity Markets Research

### Market Outlook- Era of Oversupply?

Sintercafe November 9, 2012

Keith Flury

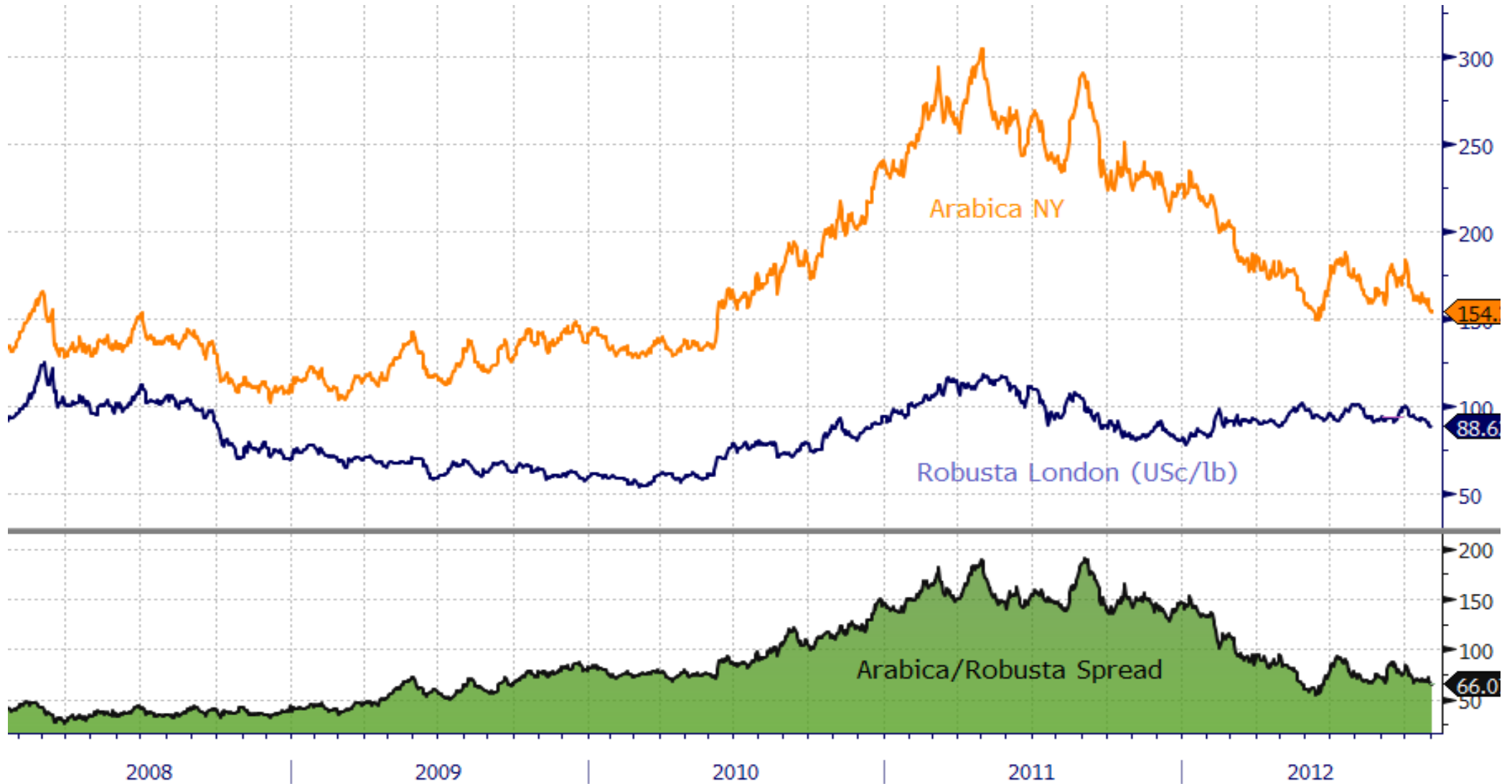
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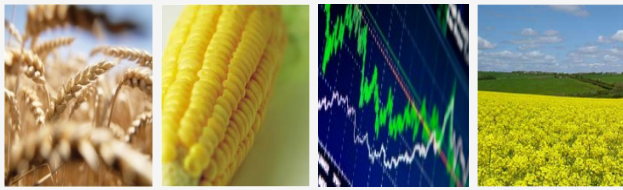
Food & Agribusiness Research and Advisory

**Rabobank International - London**

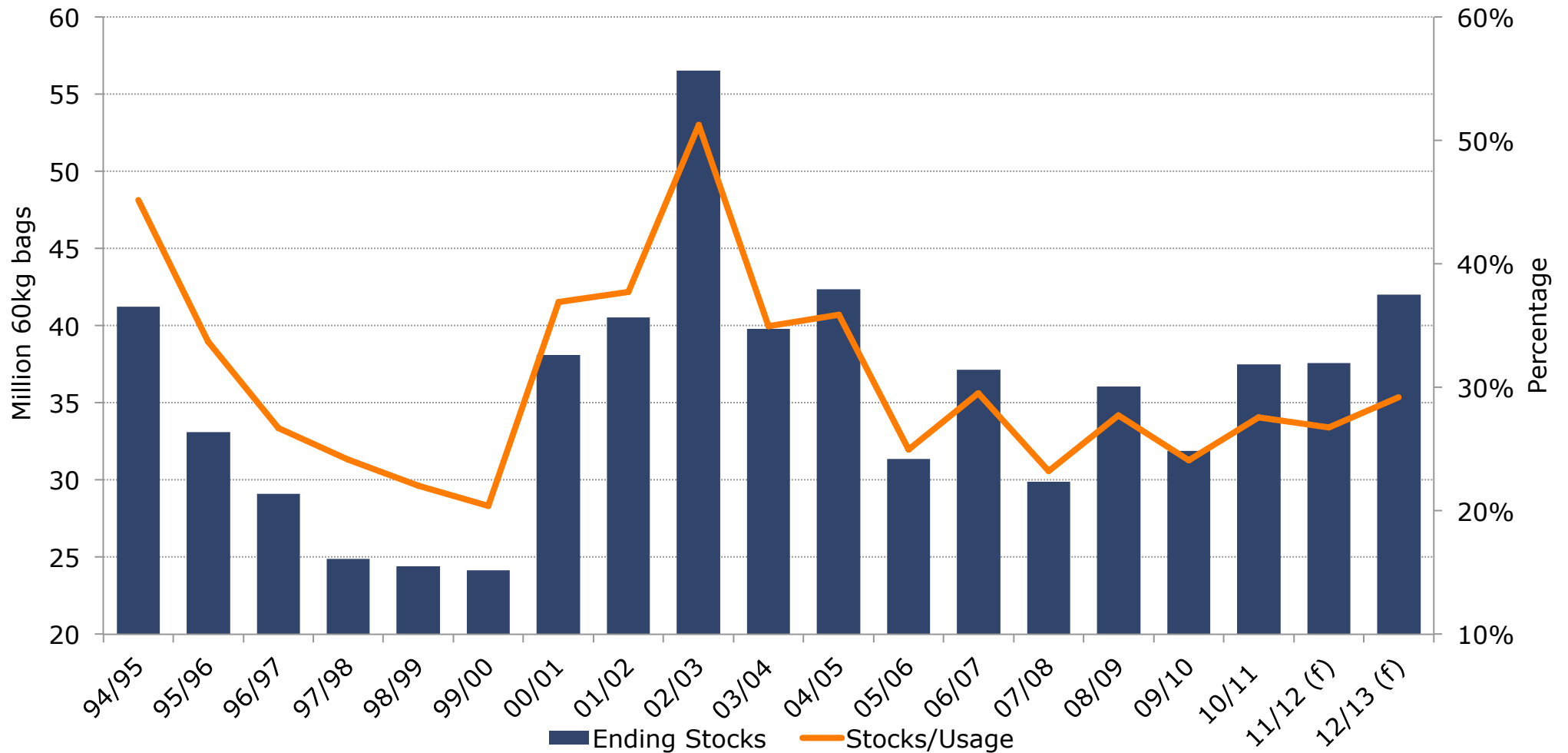


## Coffee market prices and spread





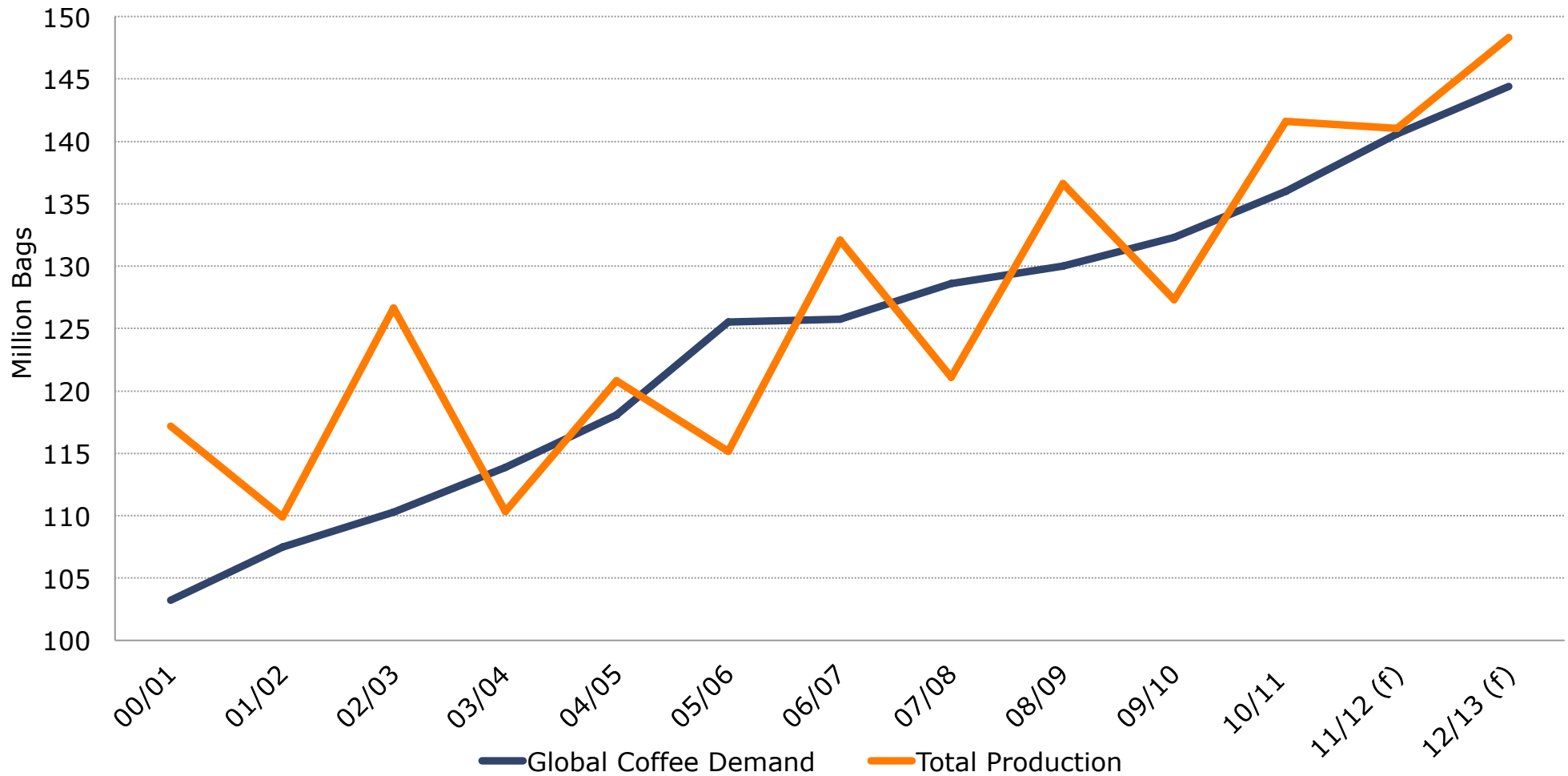
Total coffee stocks have increased for four seasons and the 10/11 rally may continue to impact future supply



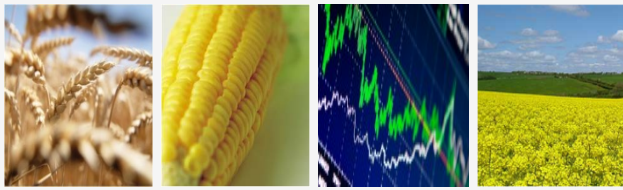
Source: ICO, Rabobank



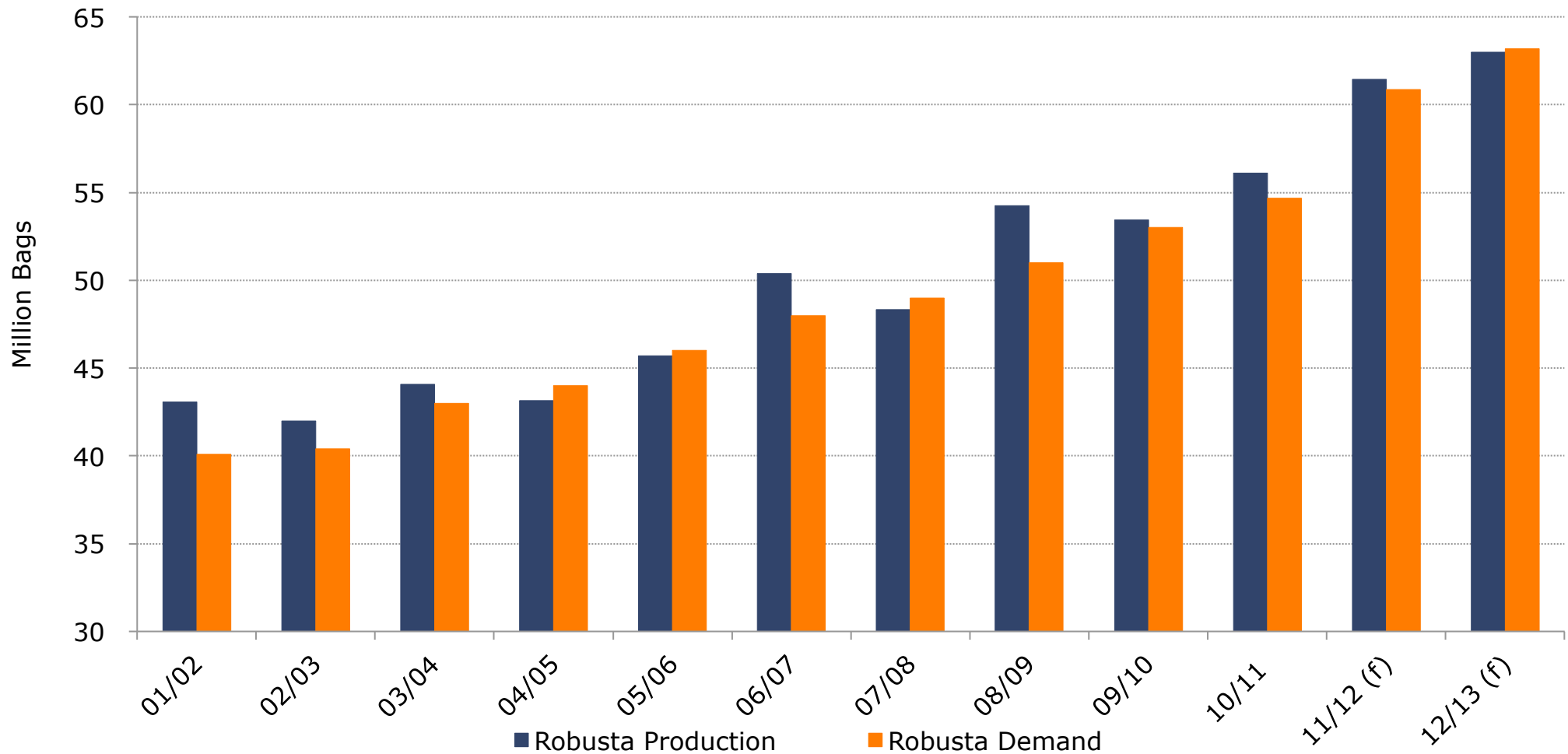
## Supply and Demand; third consecutive surplus is forecast in 12/13



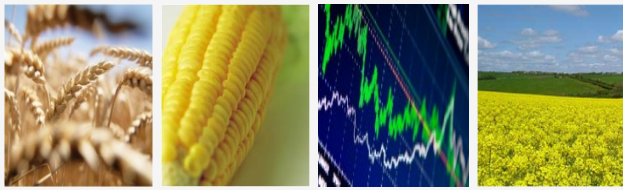
Source: ICO, Rabobank



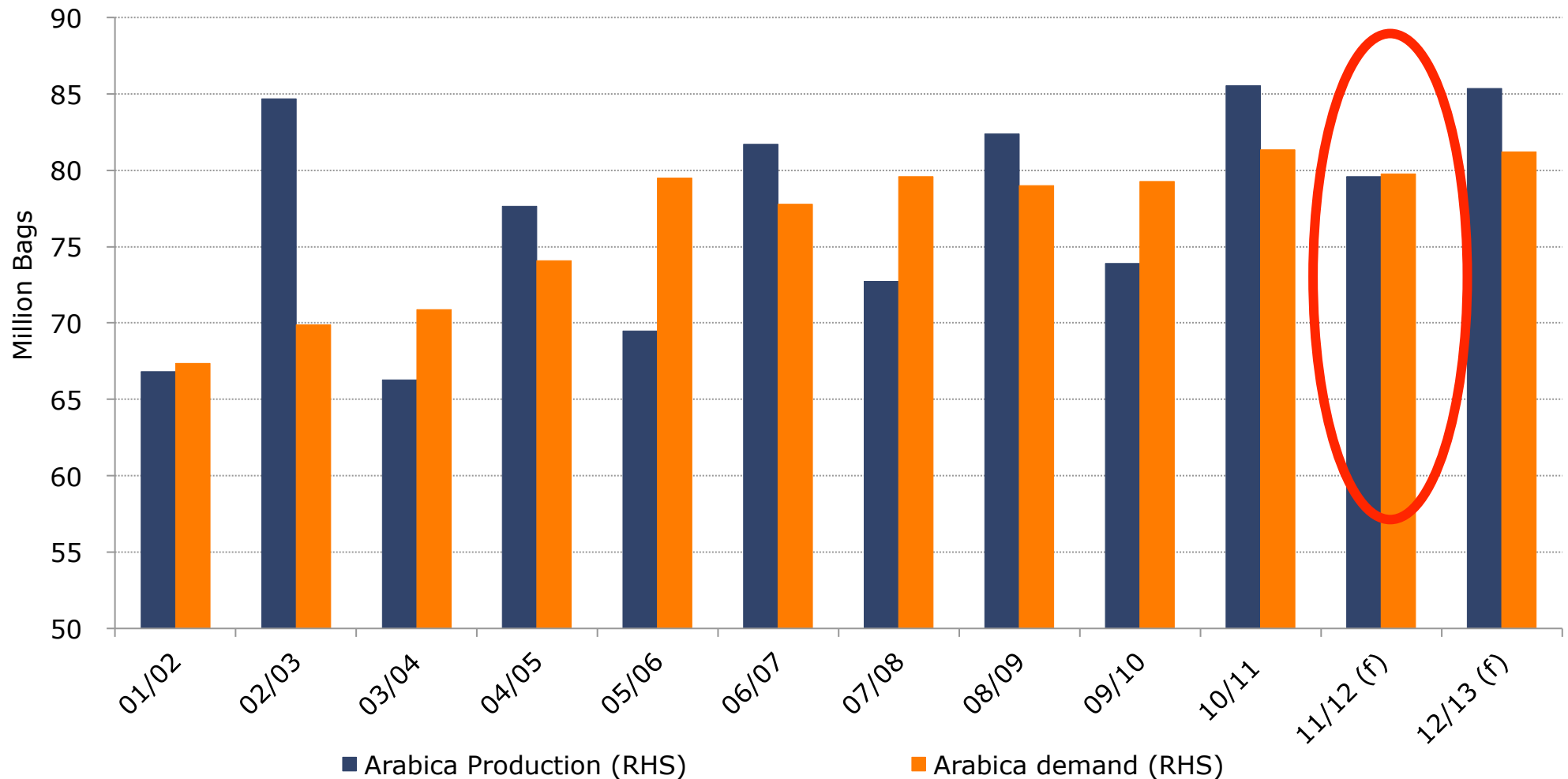
## Growing Robusta demand has been met with increased production but fundamentals are tight



Source: ICO, Rabobank

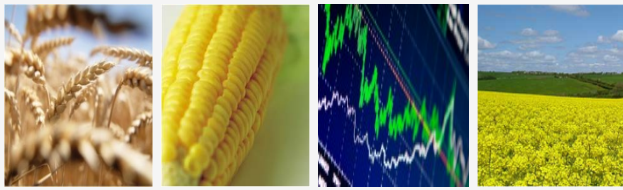


## A reduced Arabica off season deficit in 11/12 was a function of a large non-Brazilian crop and demand shift to Robusta

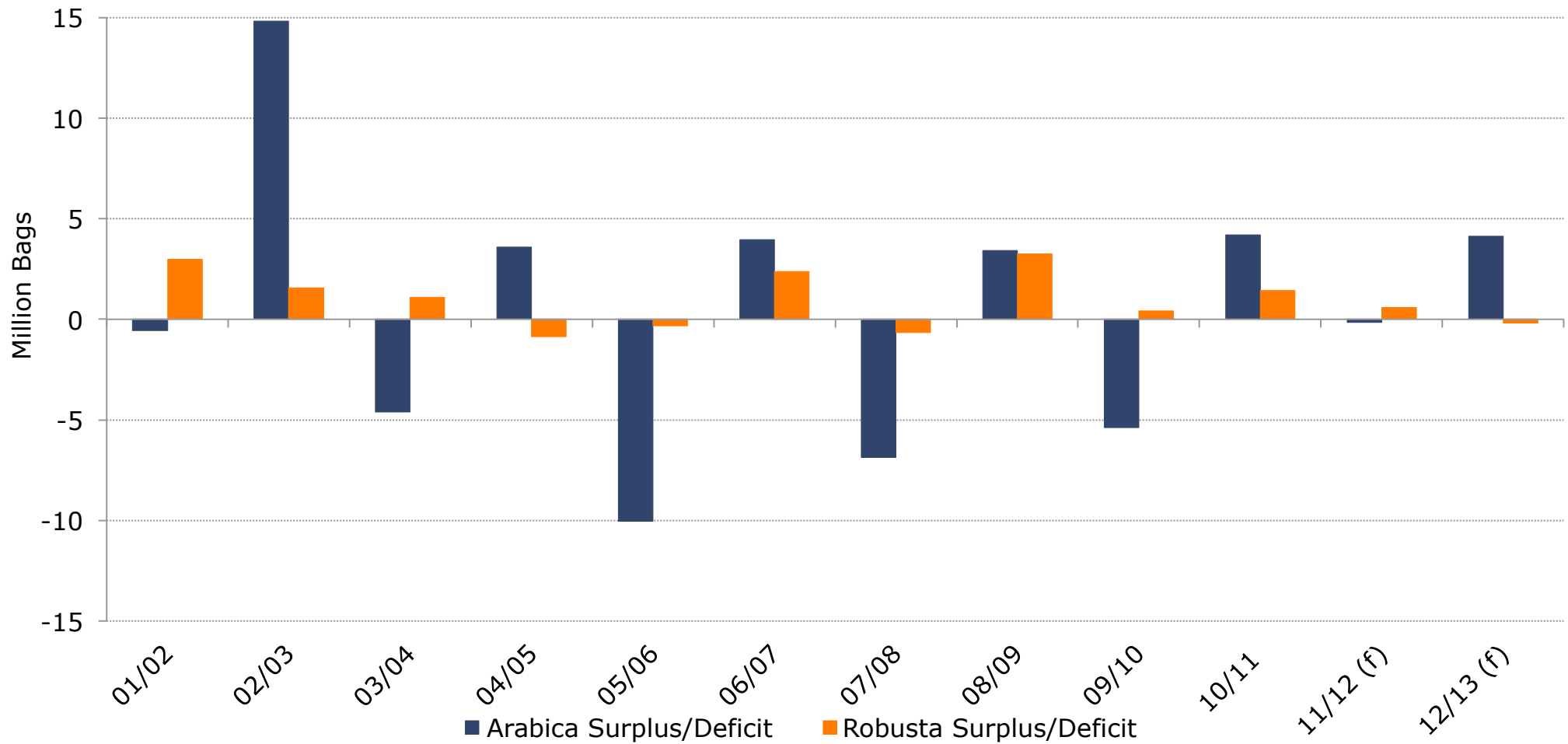


Source: ICO, Rabobank

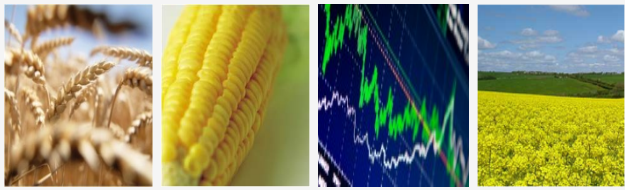




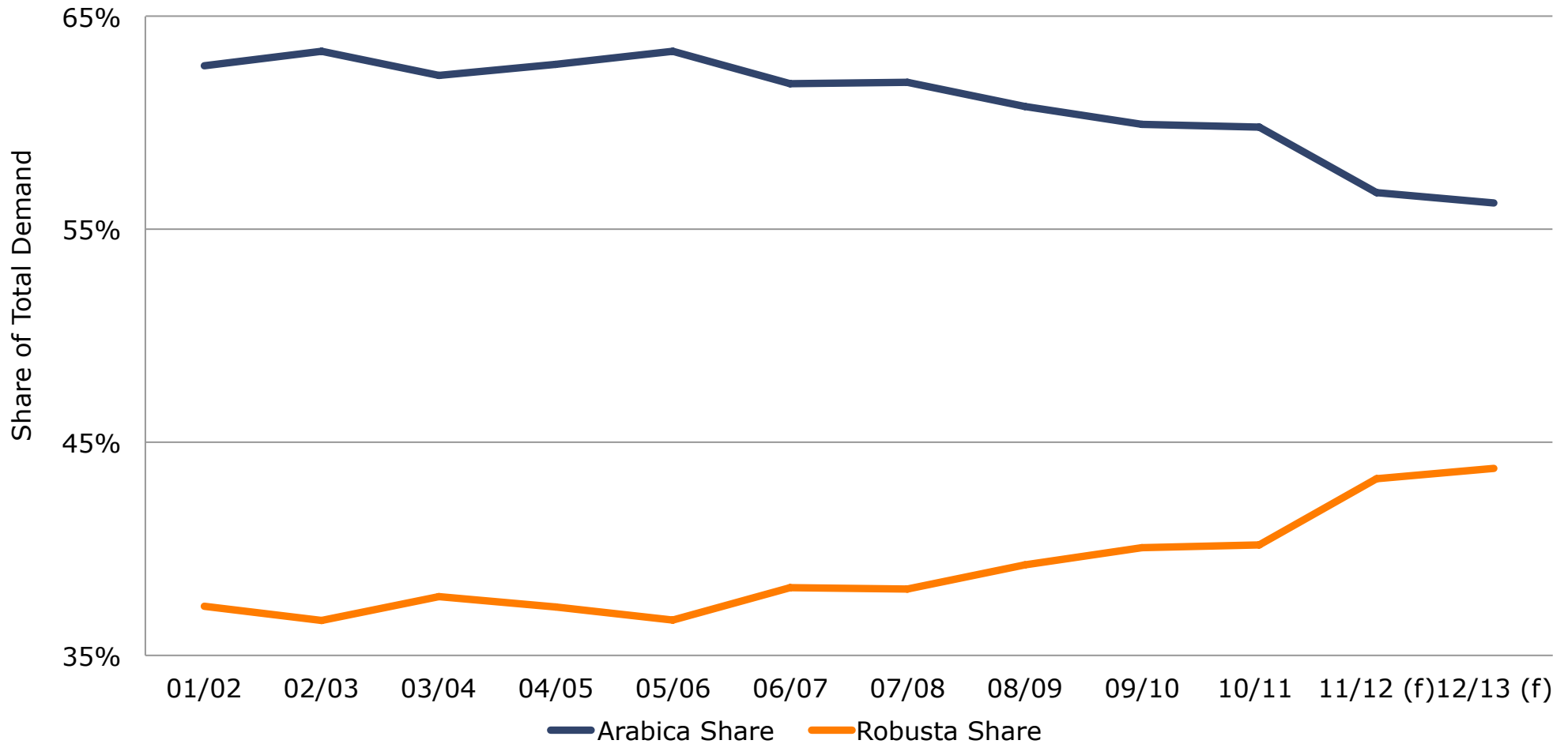
Arabica surplus in 12/13 follows a small deficit in 11/12 while Robusta is forecast to return to deficit in 12/13



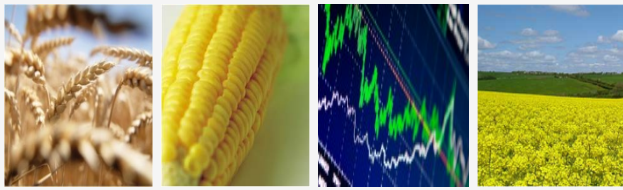
Source: Rabobank



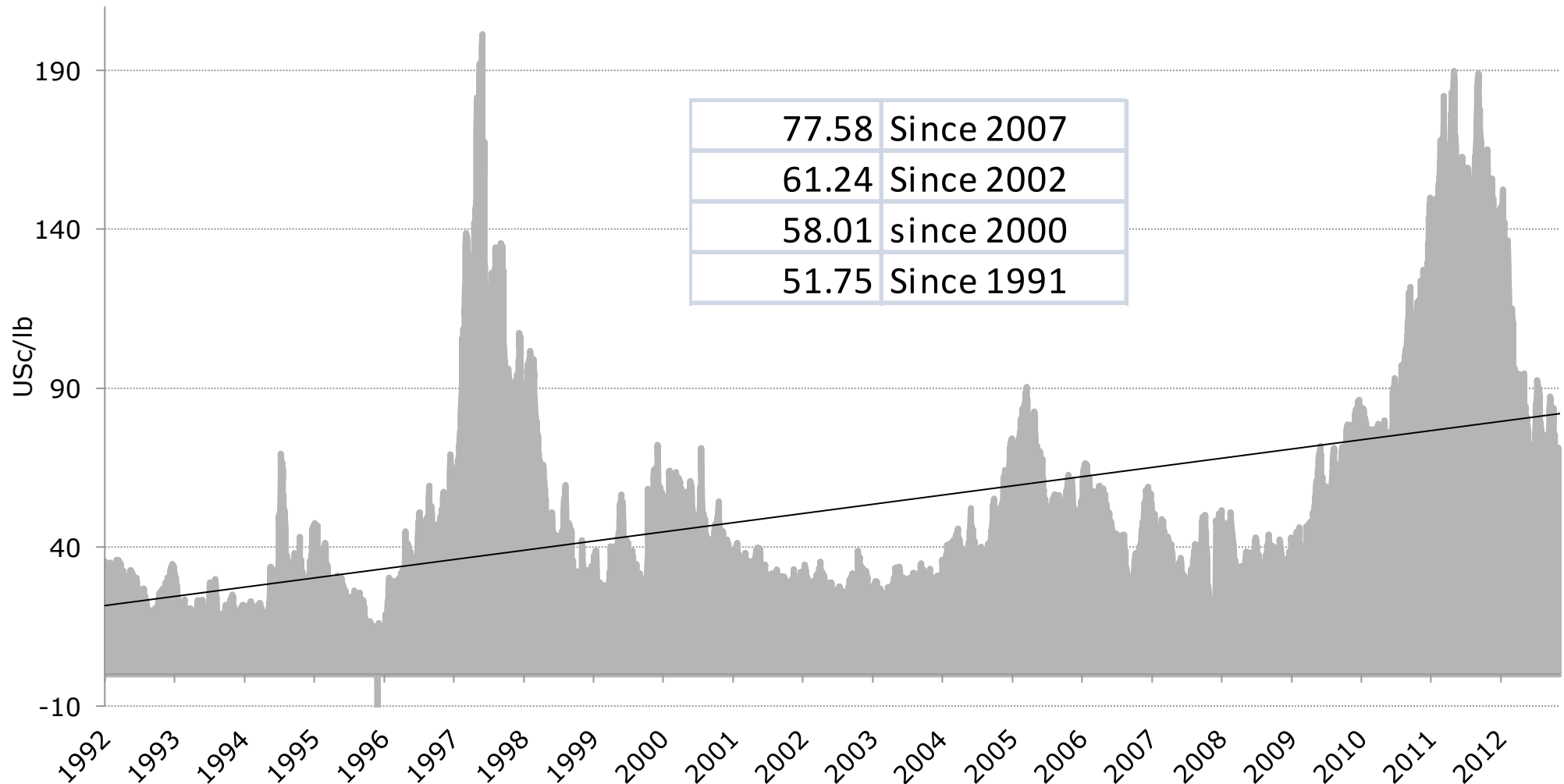
## Robusta market share has increased due to growing consumption in emerging markets and roaster demand shift







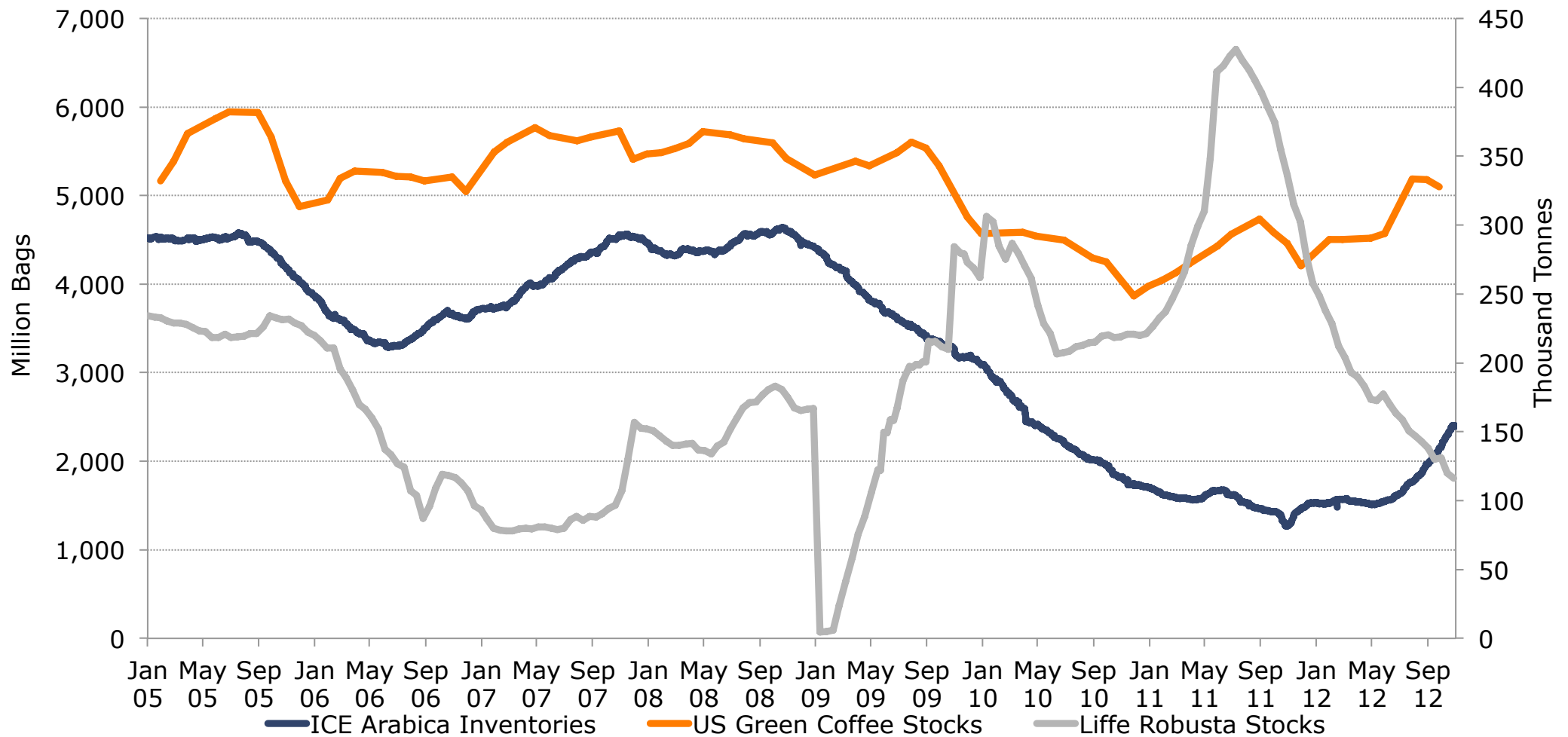
## Arabica/Robusta arbitrage still high relative to longer term averages



Source: Rabobank, Bloomberg



Stock levels of Arabica have grown in 2012 while Robusta inventories have fallen significantly supporting that market



Source: Bloomberg, Rabobank



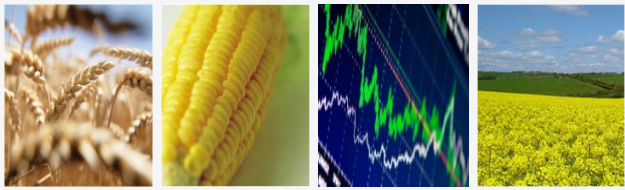


## Oversupply?

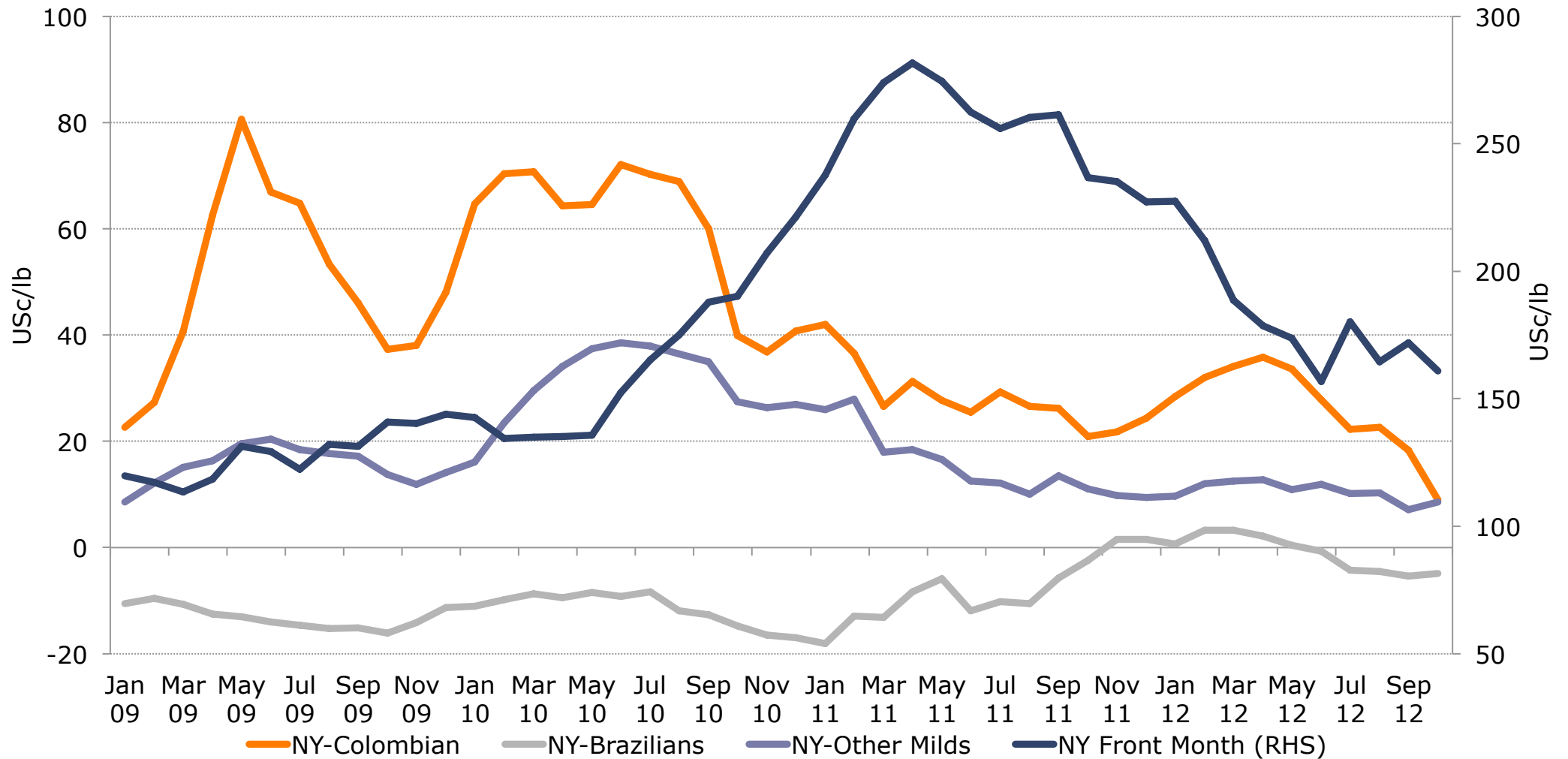
Arabica- Yes, Speculators and Users positioned for this, Brazilians hold back sales (pressure on washed producers). After next season's possible deficit oversupply risks increase.

Robusta-No, but depends on just how large those Vietnamese crops are. Next season outlook the same





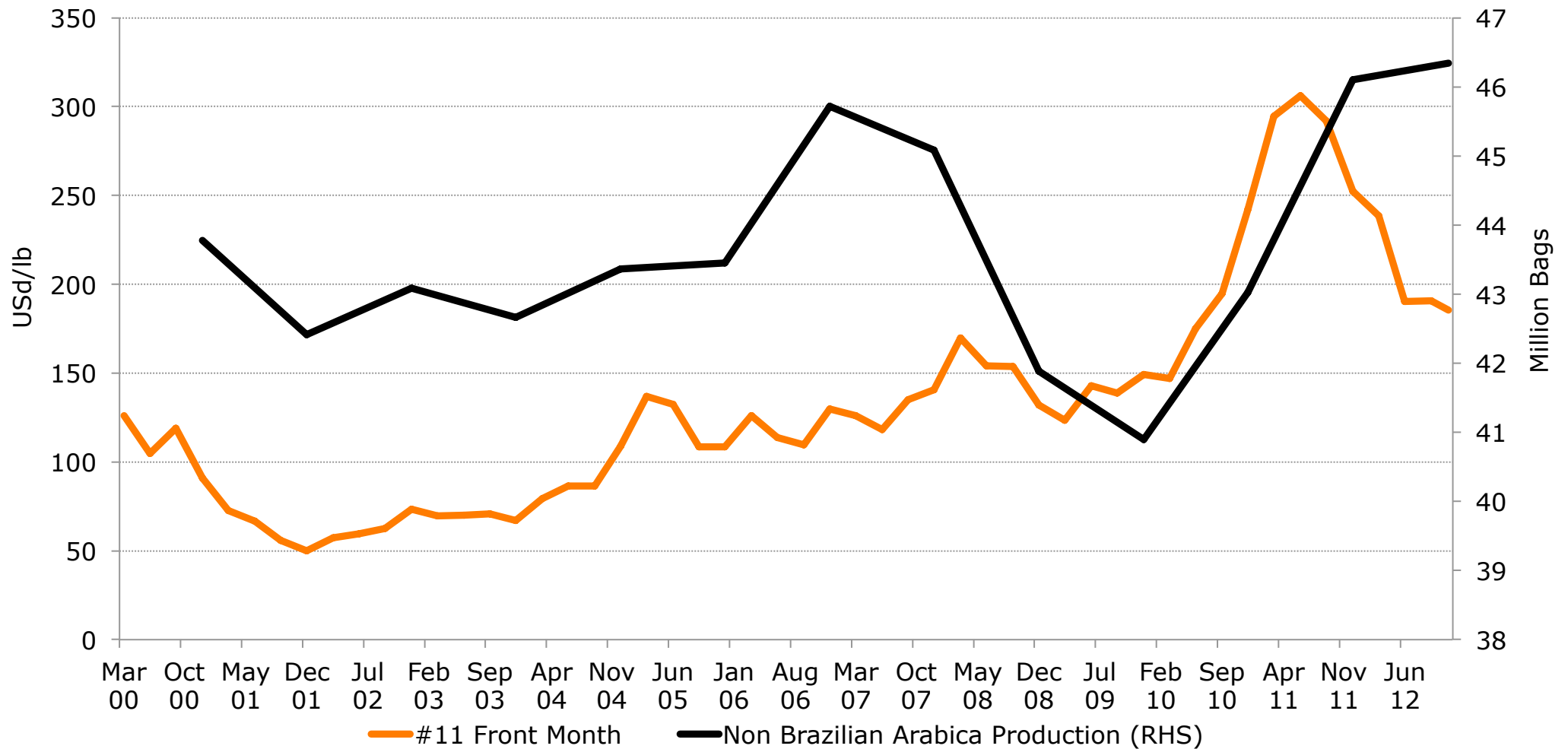
# Coffee differentials have shifted closer together after the rally in Washed Arabicas resulted in demand migration



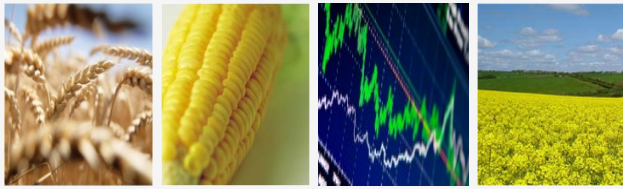
Source: ICO, Rabobank



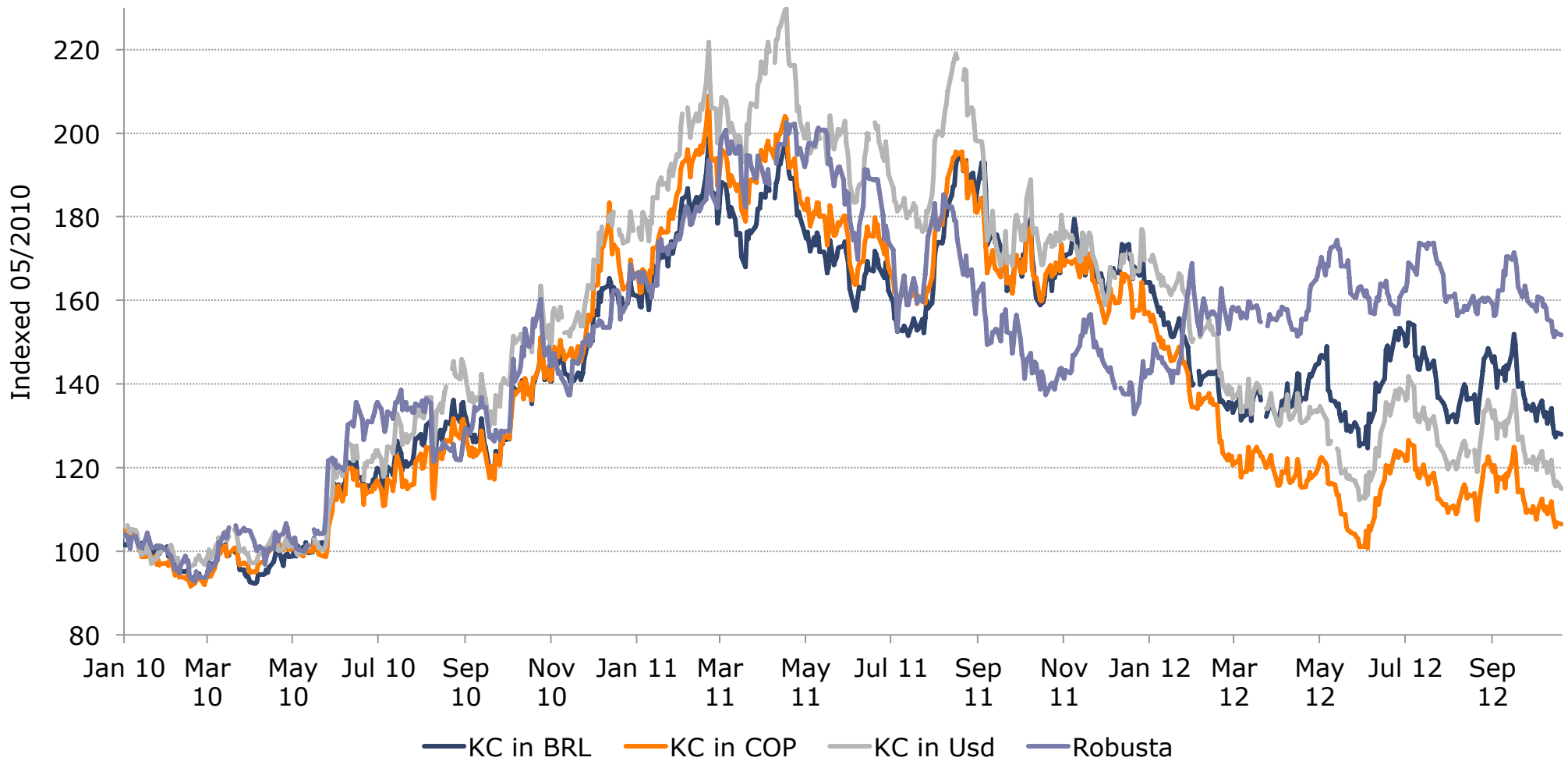
# The non Brazilian Arabica supply increase partly a function of the grower response to the 2010/11 price rally



Source: Rabobank

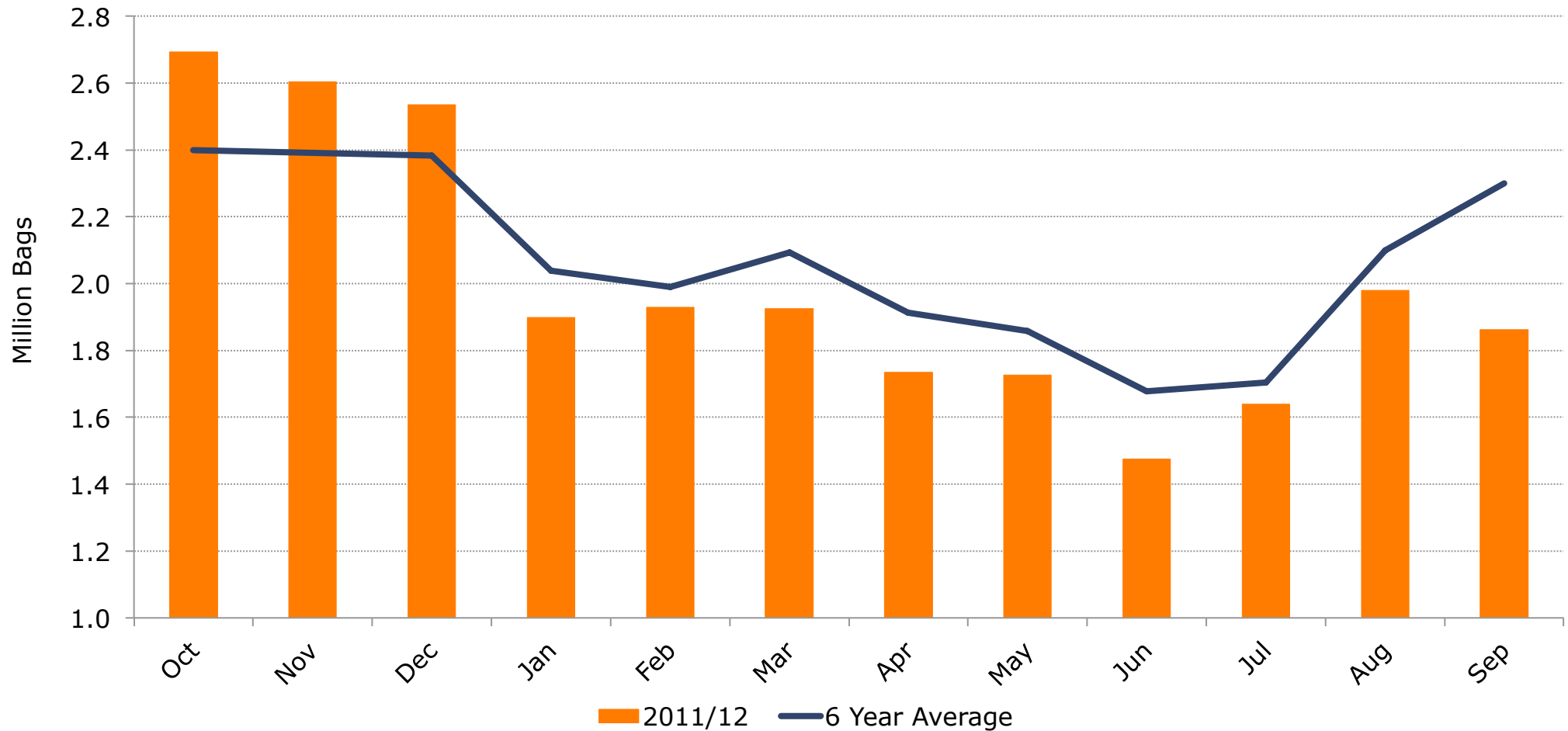


## “C” prices in origin currencies normalized to the beginning of the 10/11 rally





## Brazilian Arabica exports fall due to lower prices and good incentives to store; 1.1 million bags difference in Apr-Sep



Source: Cecafe, Rabobank



An aerial photograph of a sugarcane plantation on a hillside. The plantation is divided into several rows of crops, with a dirt road winding through them. The background shows rolling hills with sparse vegetation and a few trees. A semi-transparent white text box is overlaid on the right side of the image.

## Outlook

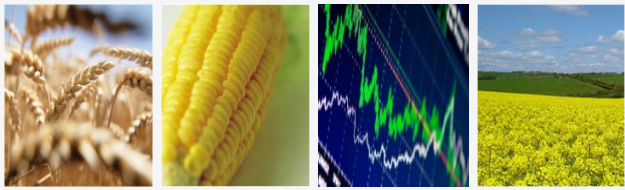
Currencies moving against many origins

Grower incentives reduced

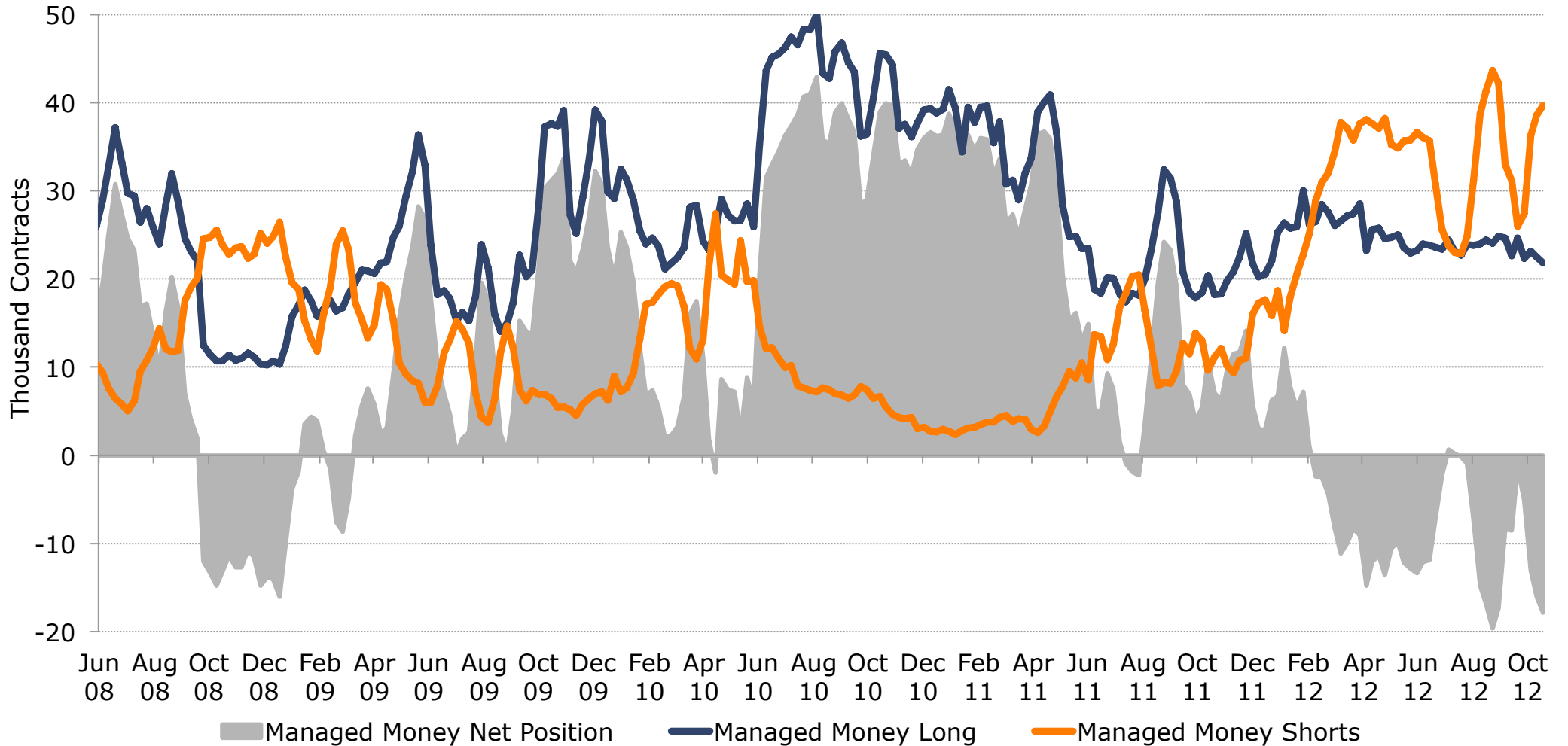
Differentials shifting closer

Cost of production increases, lower differentials and falling NY means profitability squeezed





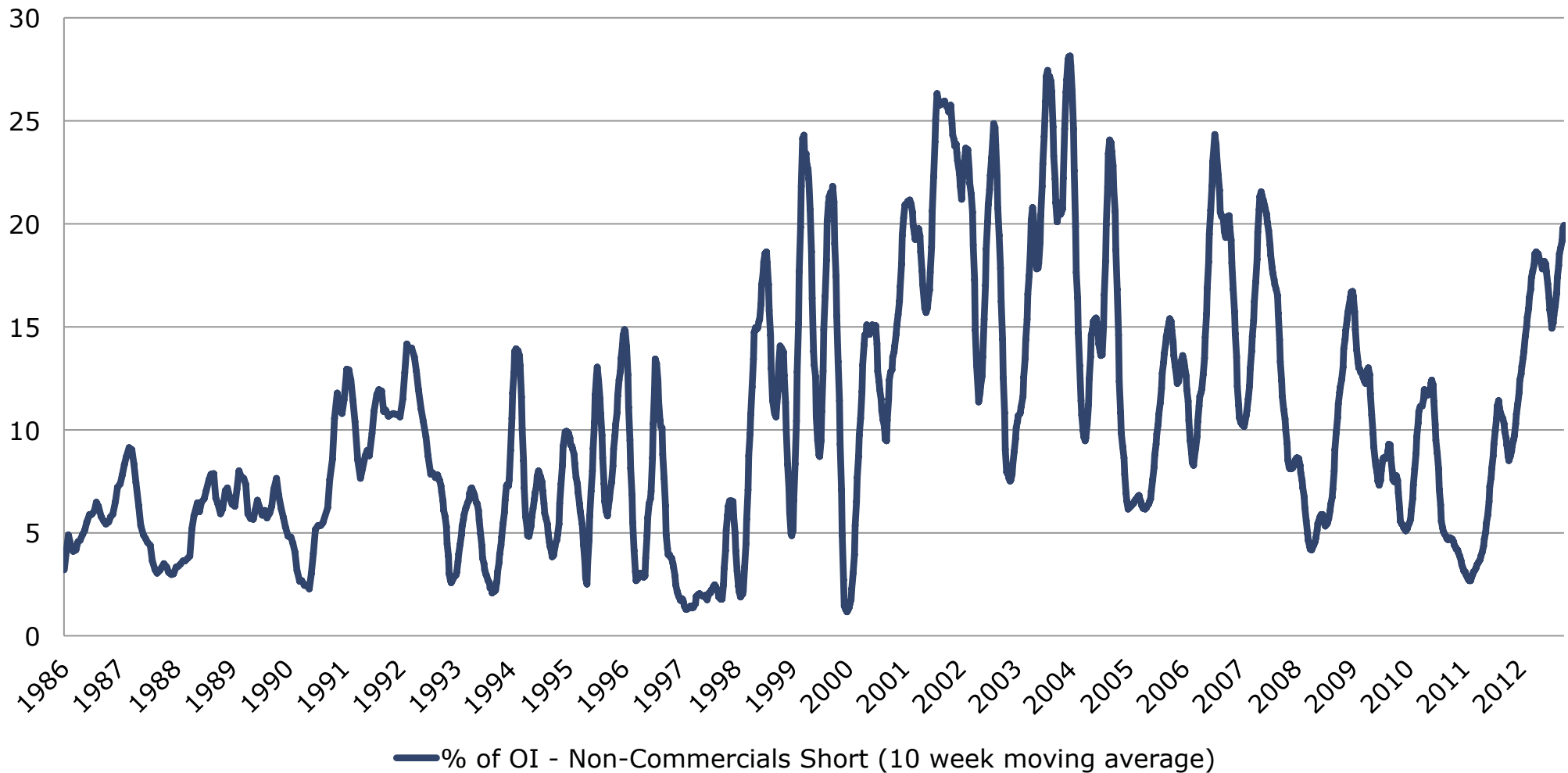
# The speculator gross short position has been a key driver for NY Arabica prices in the past 12 months



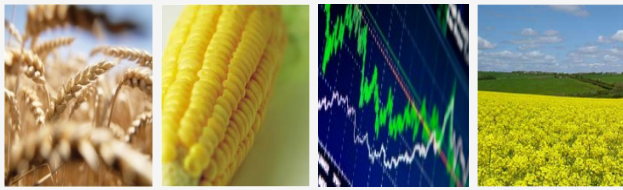
Source: Bloomberg, CFTC, Rabobank



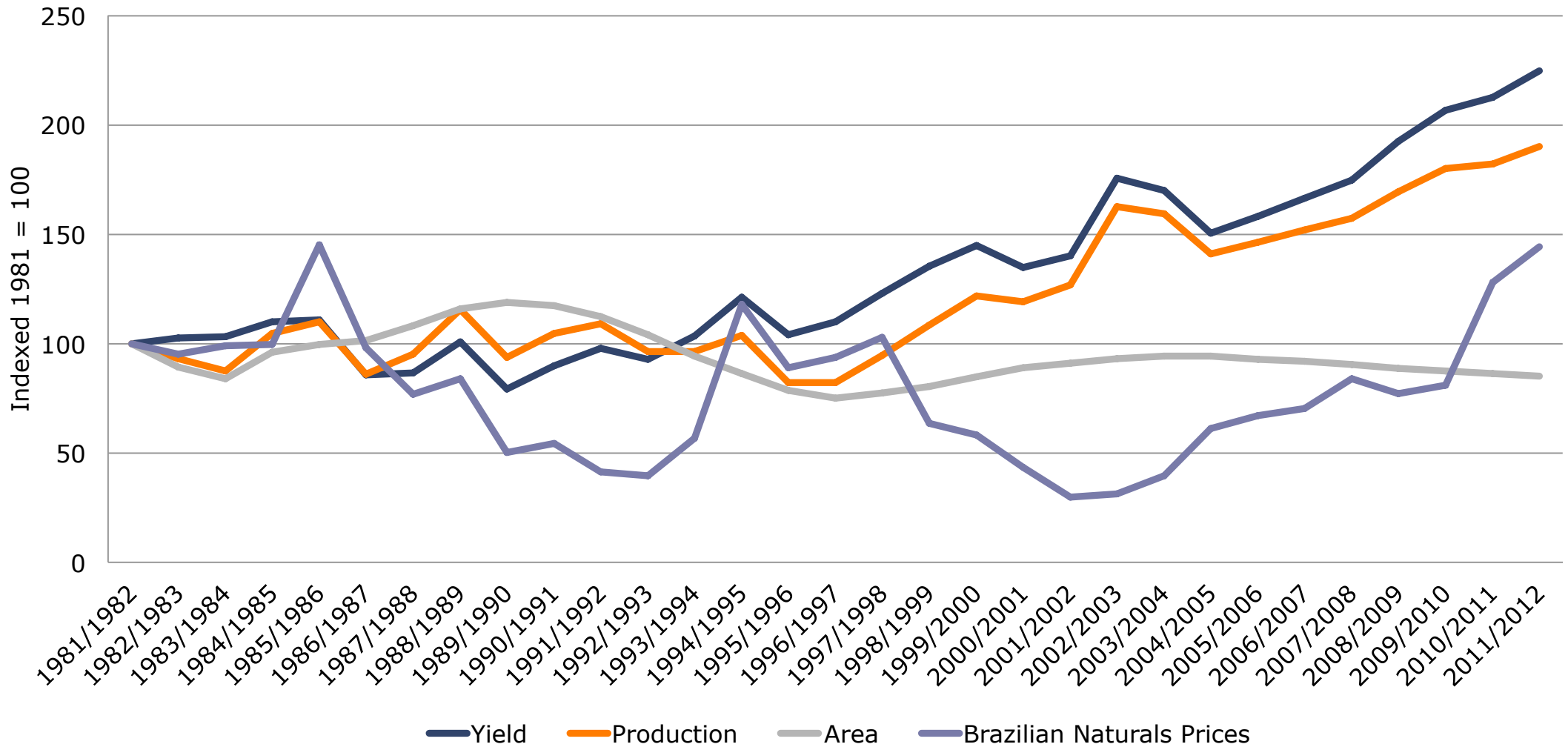
The speculator shorting as a share of open interest has increased in 2012 and is expected to remain elevated



Source: CFTC, Rabobank



## Price change & production response in Brazil



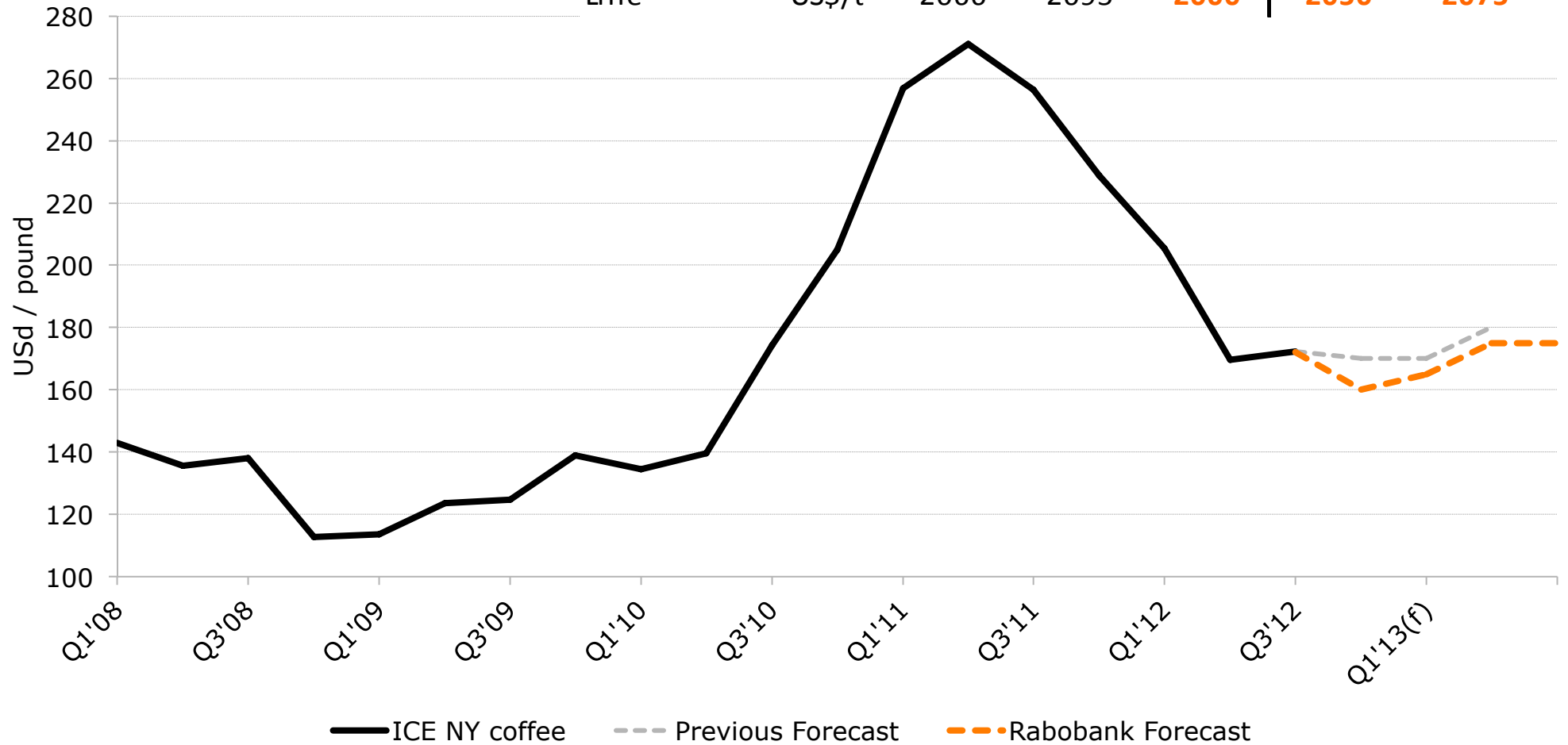
Source: IBGE, Rabobank

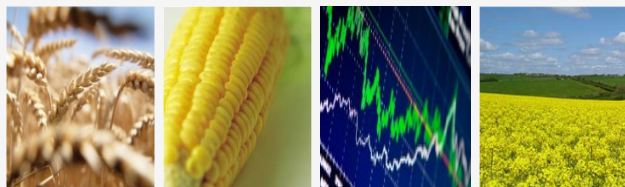


## Coffee forecasts

Rabobank Quarterly Coffee Forecast

	unit	Q2'12	Q3'12	Q4'12(f)	Q1'13(f)	Q2'13(f)	Q3'13(f)
ICE	US¢/lb	170	172	160	165	175	175
Liffe	US\$/t	2066	2095	2000	2050	2075	2100





## Coffee Balance Sheet

### World Coffee Supply & Demand

(1000 60kg bags)	04/05	05/06	06/07	07/08	08/09	09/10	10/11	Rabobank 11/12 (f)	Rabobank 12/13 (f)
Beginning Stocks	39,809	42,348	31,363	37,148	29,882	36,052	31,900	37,474	37,905
Arabica Production	77,663	69,455	81,717	72,734	82,390	73,895	85,528	79,603	85,340
Robusta Production	43,141	45,692	50,367	48,333	54,242	53,427	56,096	61,428	62,996
Total Output	120,804	115,147	132,084	121,067	136,632	127,322	141,624	141,031	148,336
MY Imports	93,011	92,195	97,470	96,809	96,821	93,800	107,520	105,000	108,000
<b>Total Supply</b>	<b>253,624</b>	<b>249,690</b>	<b>260,917</b>	<b>255,024</b>	<b>263,335</b>	<b>257,174</b>	<b>281,044</b>	<b>283,505</b>	<b>294,241</b>
MY Exports	93,195	92,829	98,000	96,551	97,303	93,000	107,550	105,000	108,000
Soluble Use	14,370	12,963	12,857	13,584	12,376	13,144	13,400	13,900	14,400
Use	105,779	112,535	112,912	115,007	117,604	119,130	122,620	126,700	130,000
Total Domestic Consumptic	118,081	125,498	125,769	128,591	129,980	132,274	136,020	140,600	144,400
<b>Total Usage</b>	<b>211,276</b>	<b>218,327</b>	<b>223,769</b>	<b>225,142</b>	<b>227,283</b>	<b>225,274</b>	<b>243,570</b>	<b>245,600</b>	<b>252,400</b>
Surplus Deficit	2,723	-10,351	6,315	-7,524	6,652	-4,952	5,604	431	3,937
Ending Stocks	42,348	31,363	37,148	29,882	36,052	31,900	37,474	37,905	41,842
Stocks/Usage	36%	25%	30%	23%	28%	24%	28%	27%	29%



Thank you

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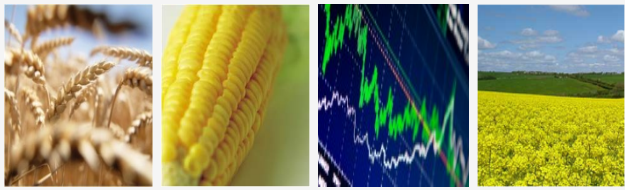
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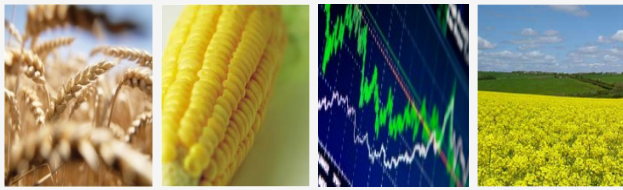


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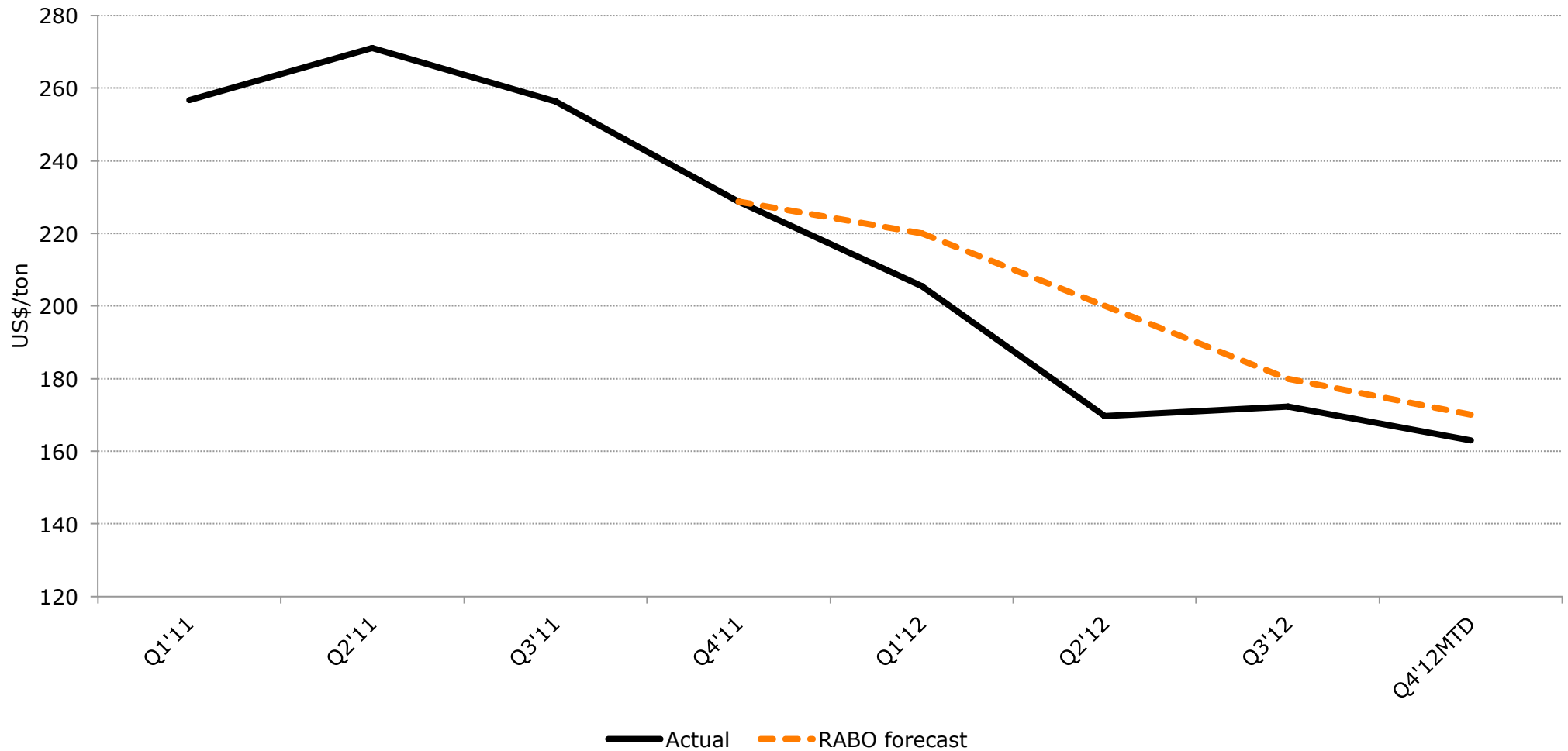


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## Last year's (November 2011) quarterly average Arabica price forecast compared with reality



Source: Bloomberg, Rabobank