



# Coffee Outlook

A Lasting Surplus Ahead



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

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November 16, 2013  
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# Contents

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 **Setting the Scene**

 **Fundamentals**

 **Currency**

 **Funds**

 **Outlook**

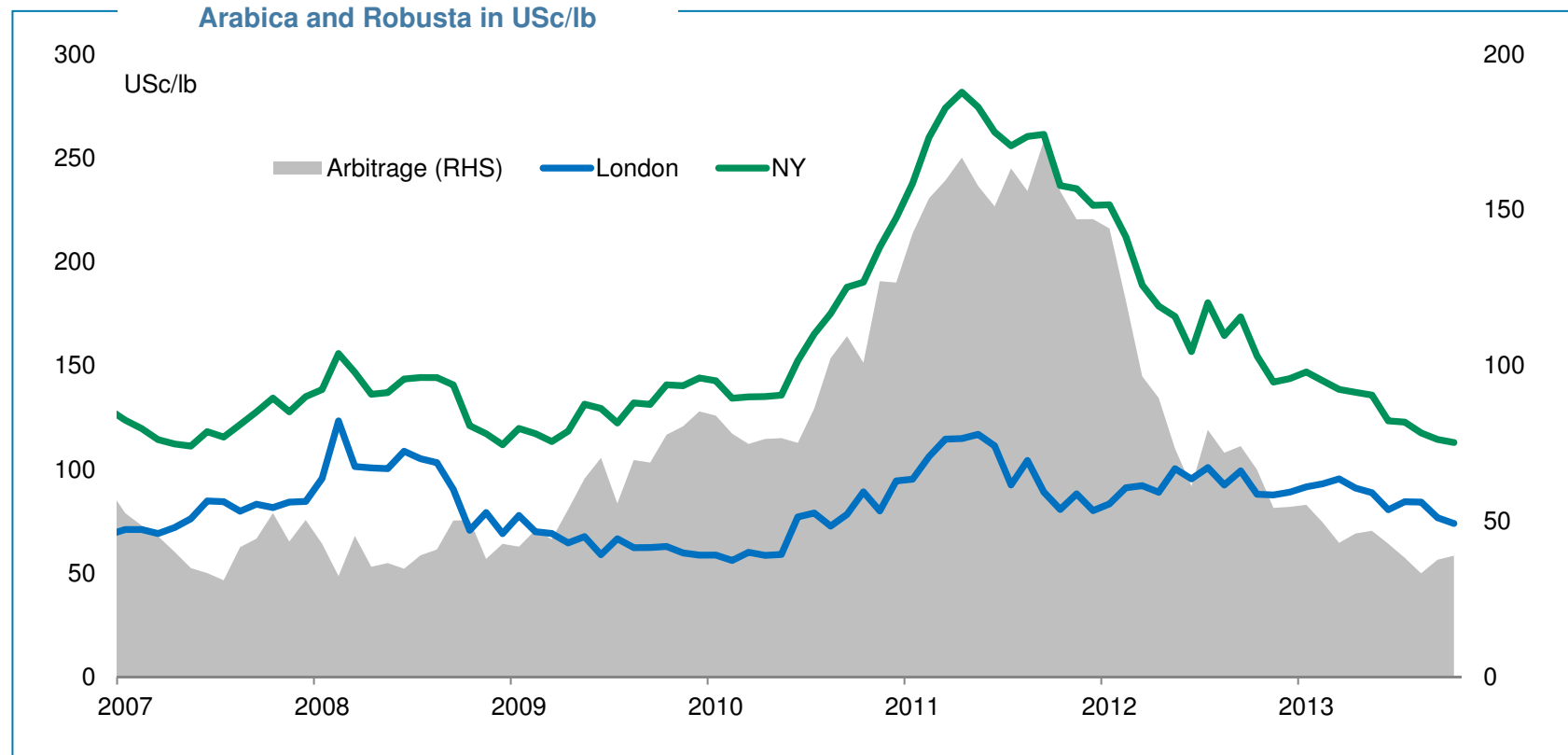
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# 1. Setting the Scene



# Coffee Futures Markets

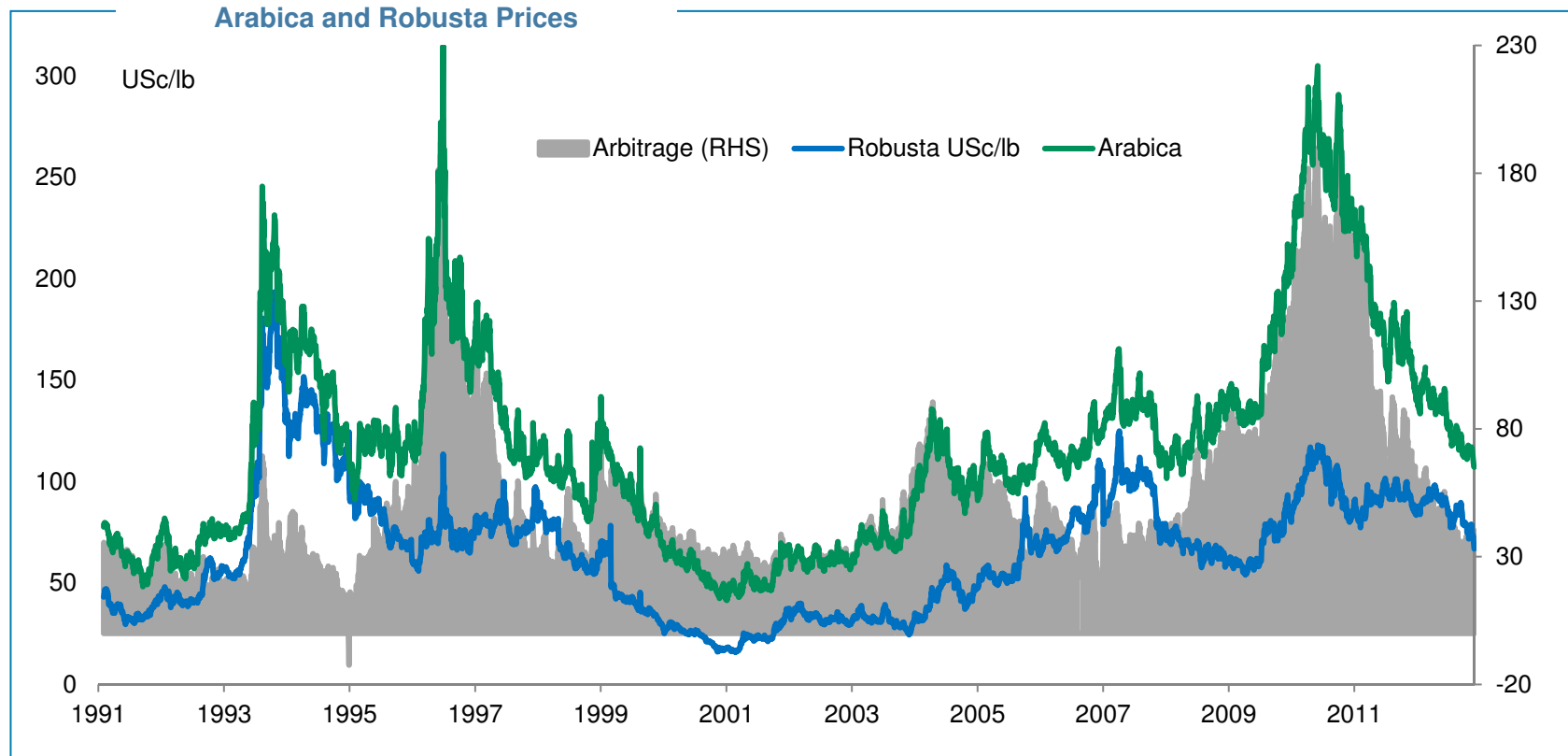


Source: Bloomberg, BNP Paribas

▶ **Tight washed Arabica supply due to reduced Colombian production led to a rally in differentials and ICE Arabica prices. The high prices prompted shifts in demand from Washed to Naturals and from Arabica to Robusta.**



# Historical Prices



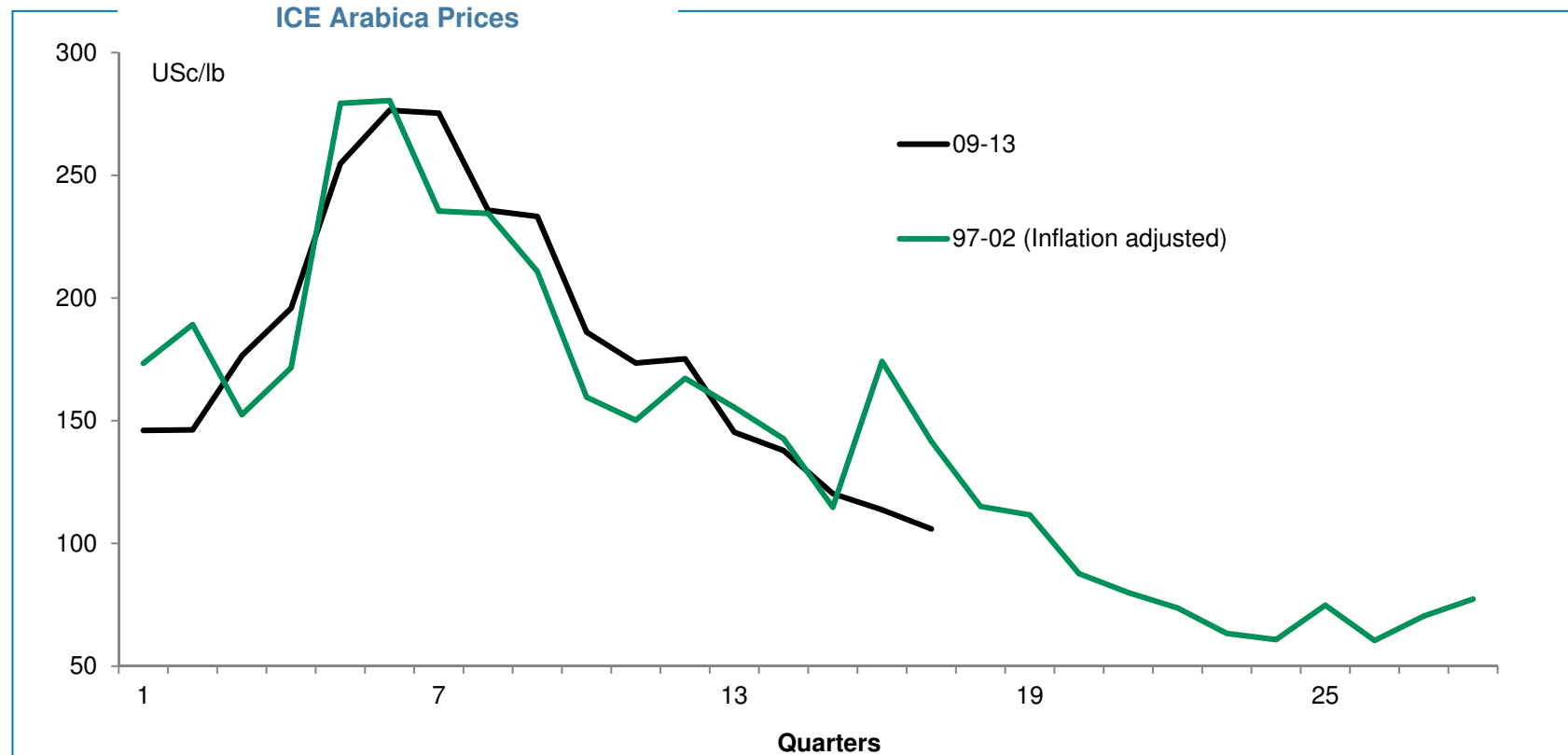
Source: Bloomberg, BNP Paribas



The 1996-1997 coffee rally supported an increase in production which in turn depressed prices between 1998-2004. Robusta prices in 1997 and in 2010 had more modest gains increasing the arbitrage between the markets.



# Arabica Rallies

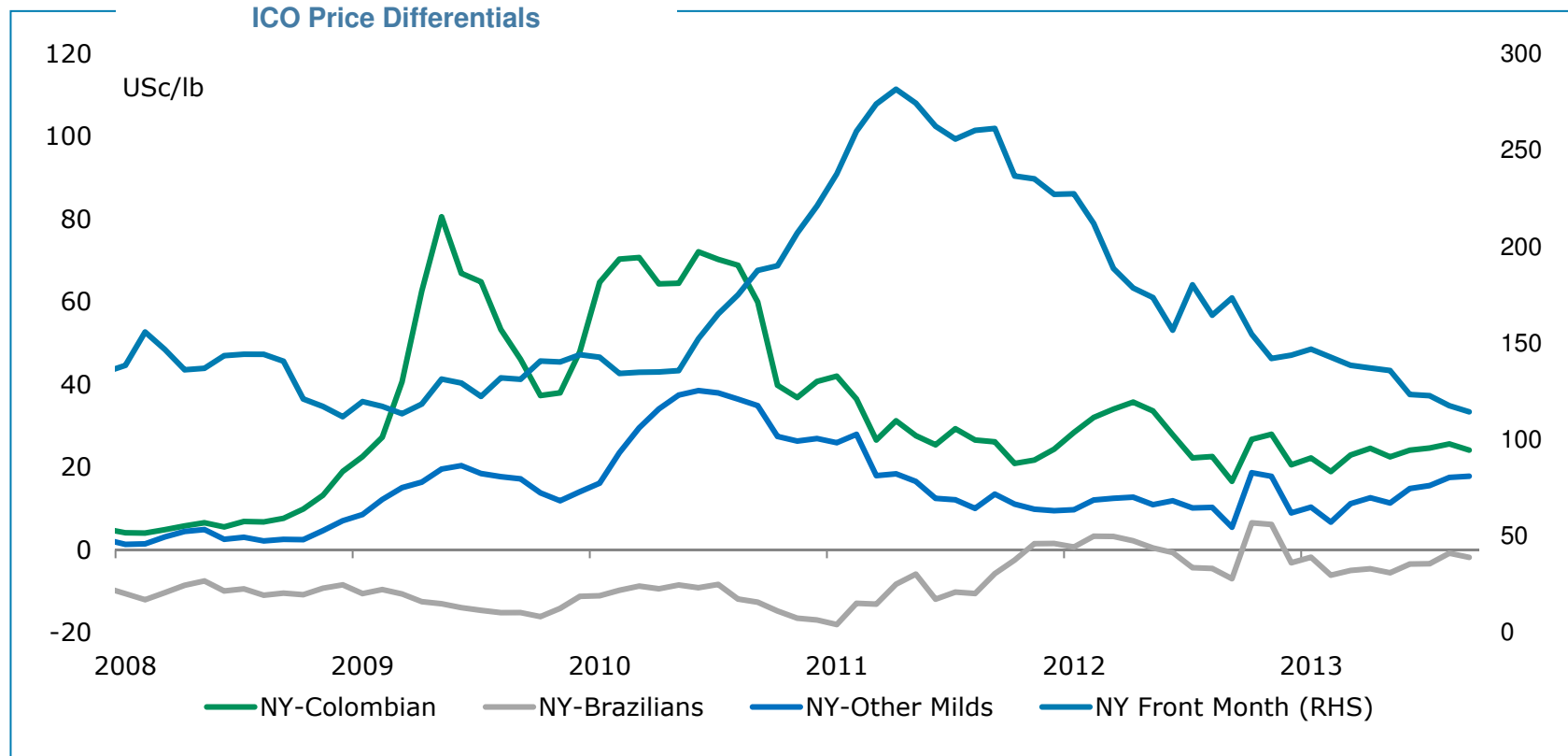


Source: Bloomberg BNP Paribas

▶ The 2010-11 Arabica rally has shadowed the previous rally in 1997. The two periods had similar dynamics with a very short market resulting in a major rally which in turn leads to an increase in output and pressure on prices.



# Arabica Differentials

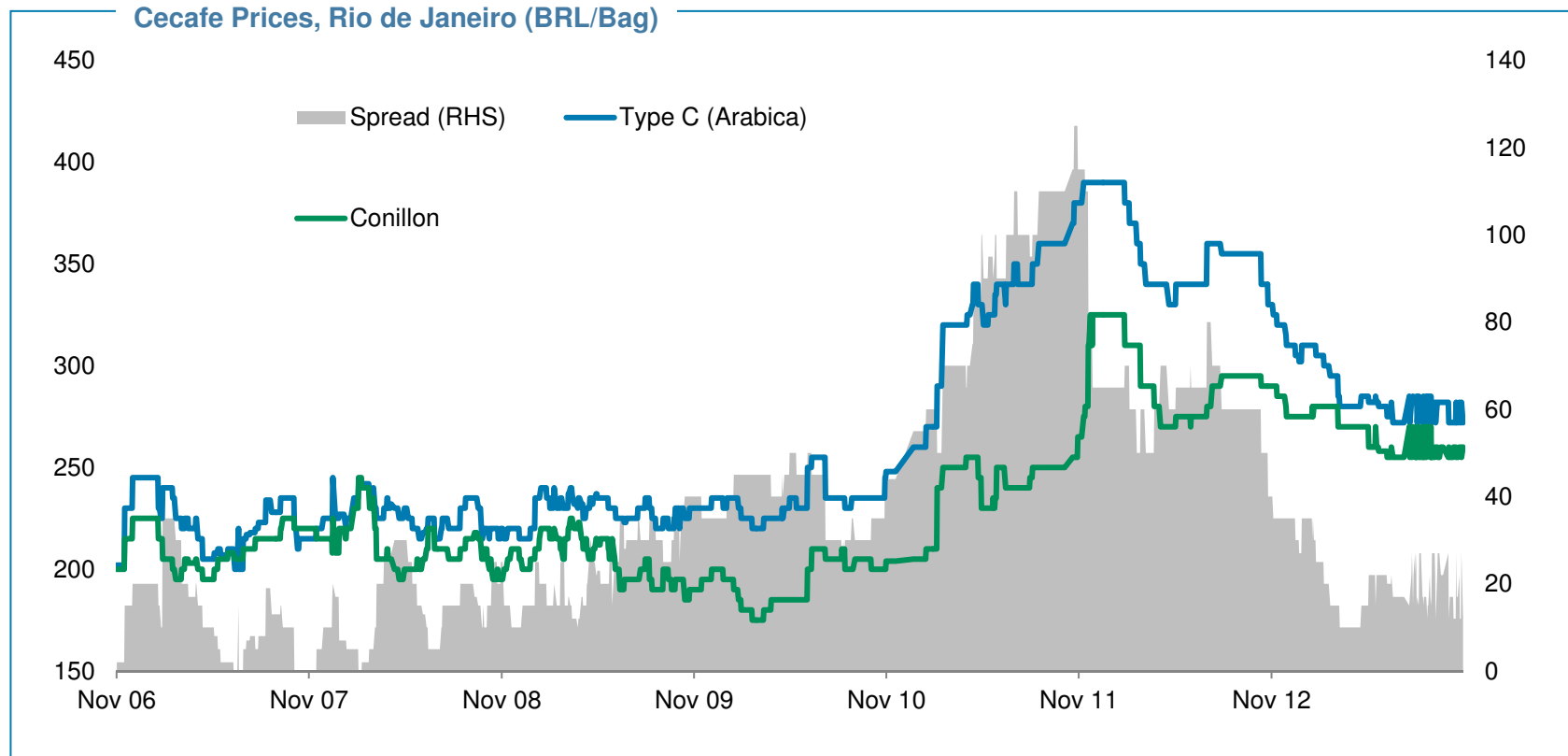


Source: BNP Paribas, ICO

▶ **As demand has shifted more easily between origin, and as Colombian production has rebounded after the renovation program differentials have been unable to compensate for the falling ICE price**



# Brazilian Prices



Source: CeCafe, BNP Paribas



**As the Arabica/Robusta Arbitrage has fallen in the futures market the spread between the types has also fallen in Brazil supporting a switch in consumption.**





## Main take-away

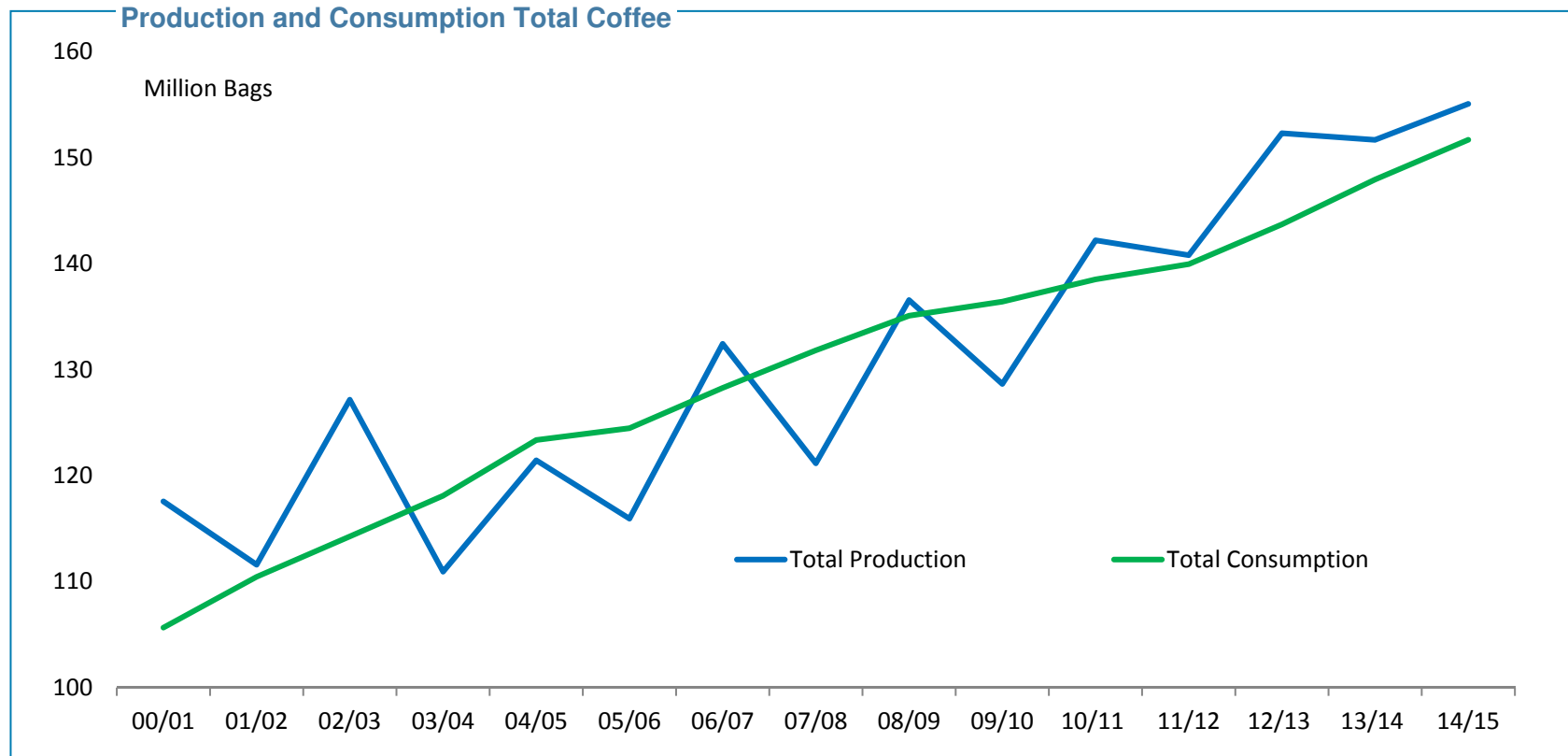
- Arabica prices are below the cost of production in most origins
- Coffee differentials are also generally weak
  - But farmer selling continues
- The arbitrage surge in 2011 has fallen and the difference between types is near five year low
- Current price movement is mimicking the 1997-2002 market



## 2. Fundamentals



# Supply & Demand



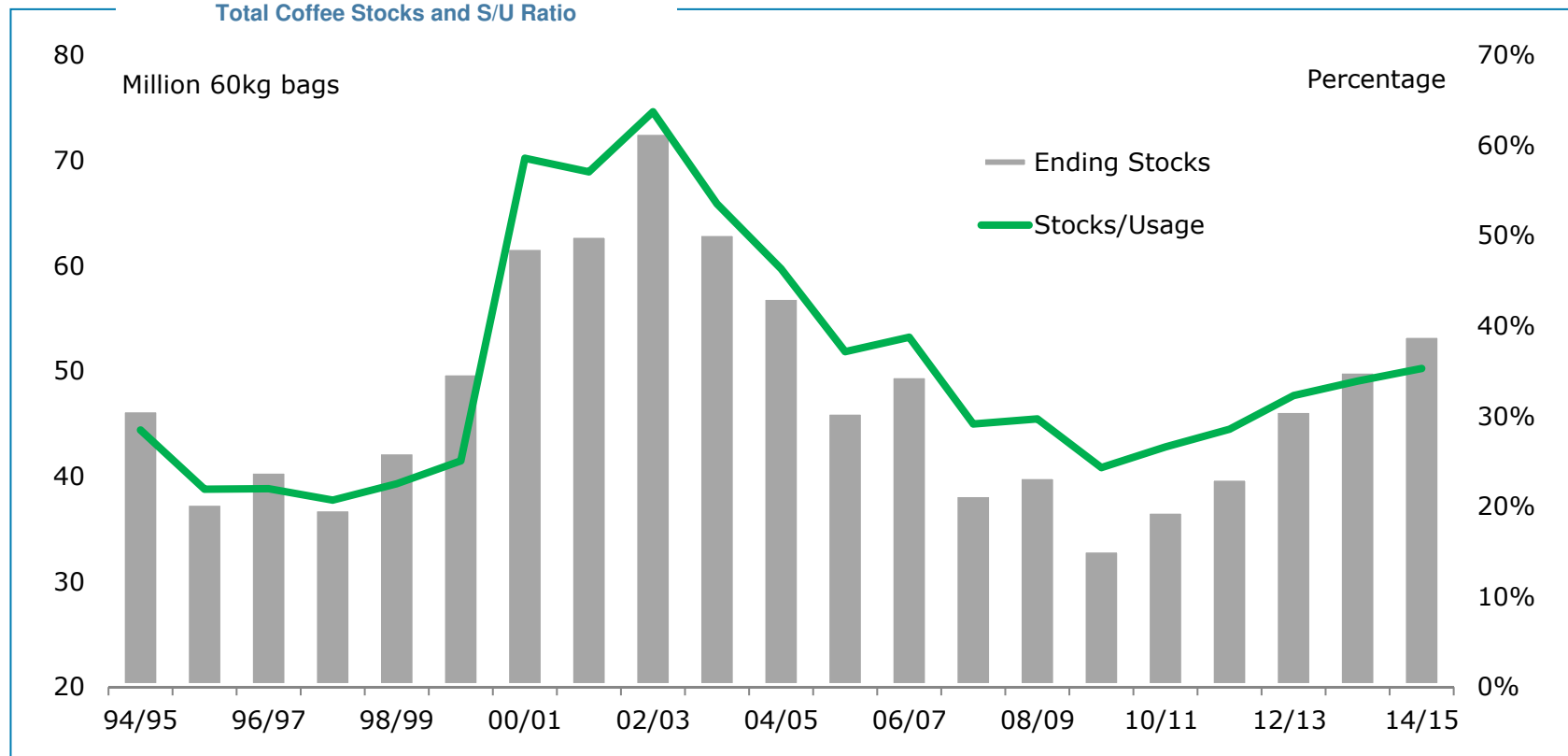
Source: BNP Paribas



**An increase in production due to high prices has resulted in a glut of beans and we forecast five consecutive seasons of surplus in the coffee market to 14/15.**



# Global Coffee Stocks

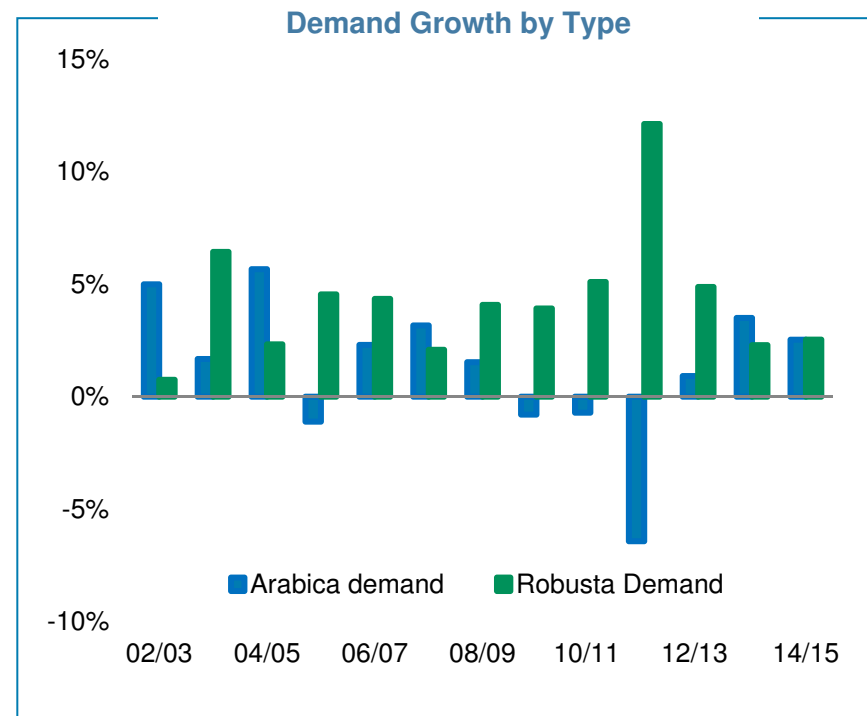
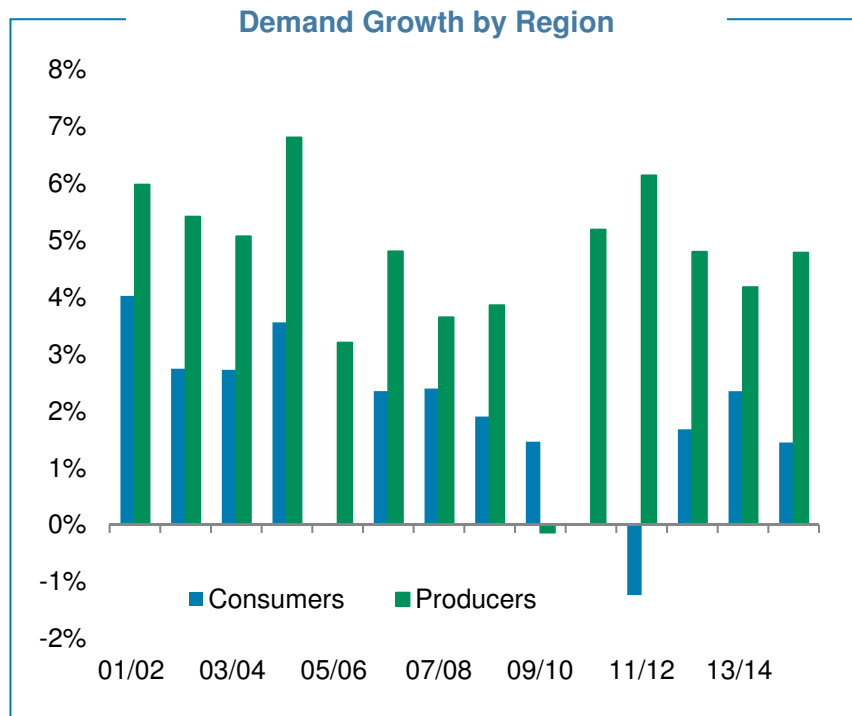


Source: BNP Paribas

➤ **The total coffee stocks in producing and consuming regions has continued to grow since 2009/10. Ending stocks and the stocks-to-use ratio is still below the recent highs reached in 2002/03.**



# Demand Growth

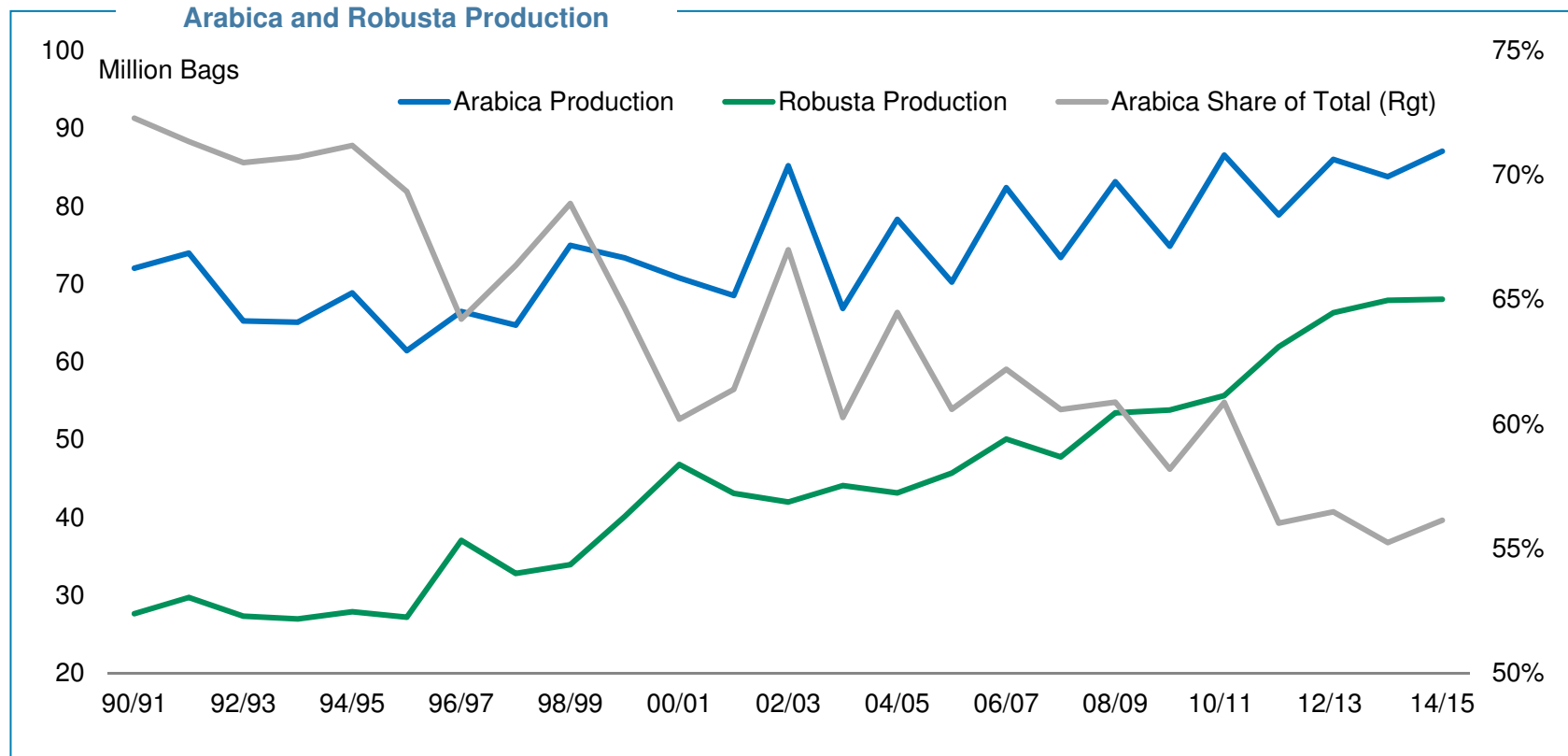


Source: Bloomberg, BNP Paribas

➤ **Demand for coffee is growing, but not evenly. The demand for Robusta has averaged 5% annually in the past ten years to 13/14, Arabica .6%. This is a function of producer regions increasing demand while consumer area use mostly flat.**



# Production Share by Type

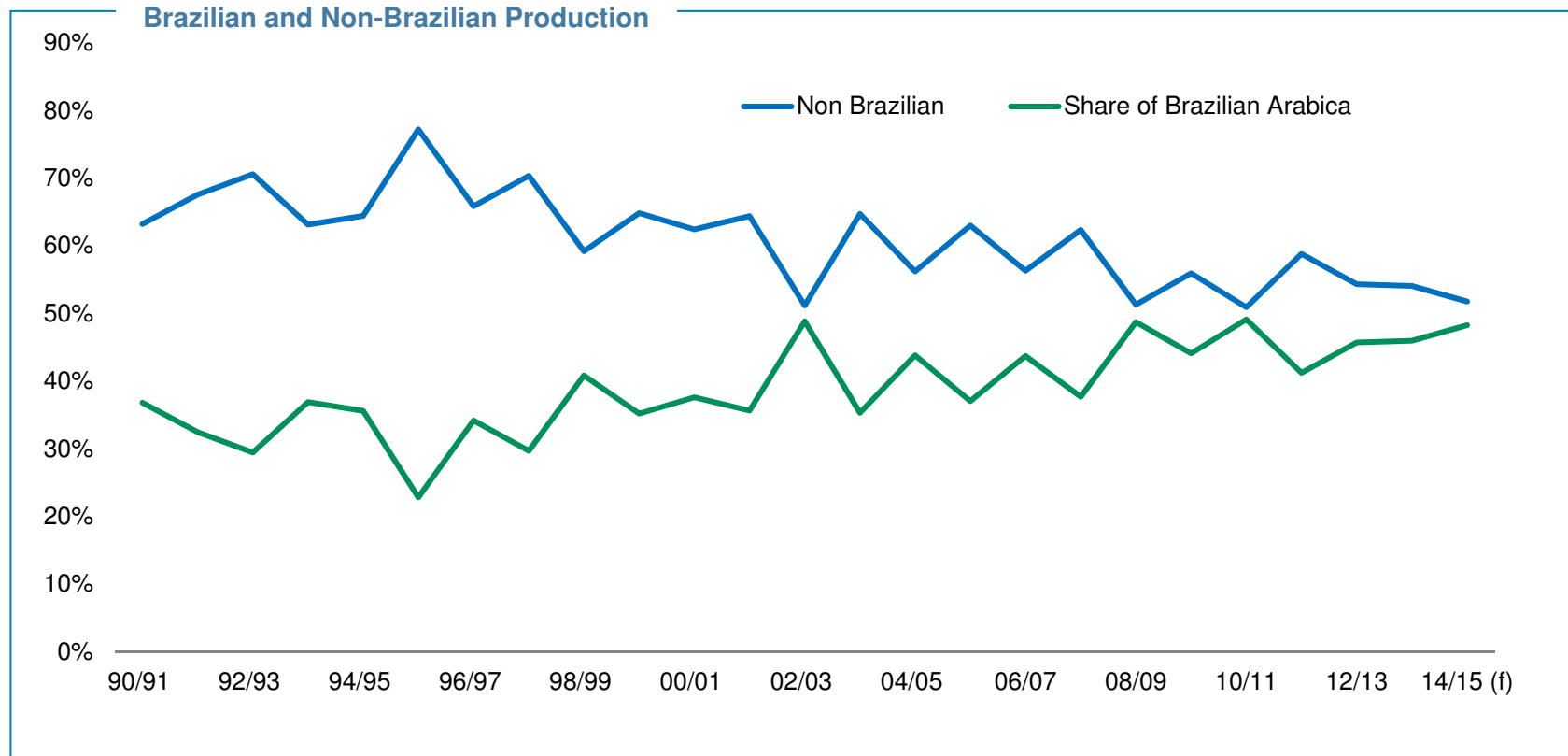


Source: BNP Paribas

➤ **As demand has shifted production growth has followed. Robusta has been able to capture more share of the global market as the growth in consumption has been focused on Robusta**



# Brazilian Arabica Share

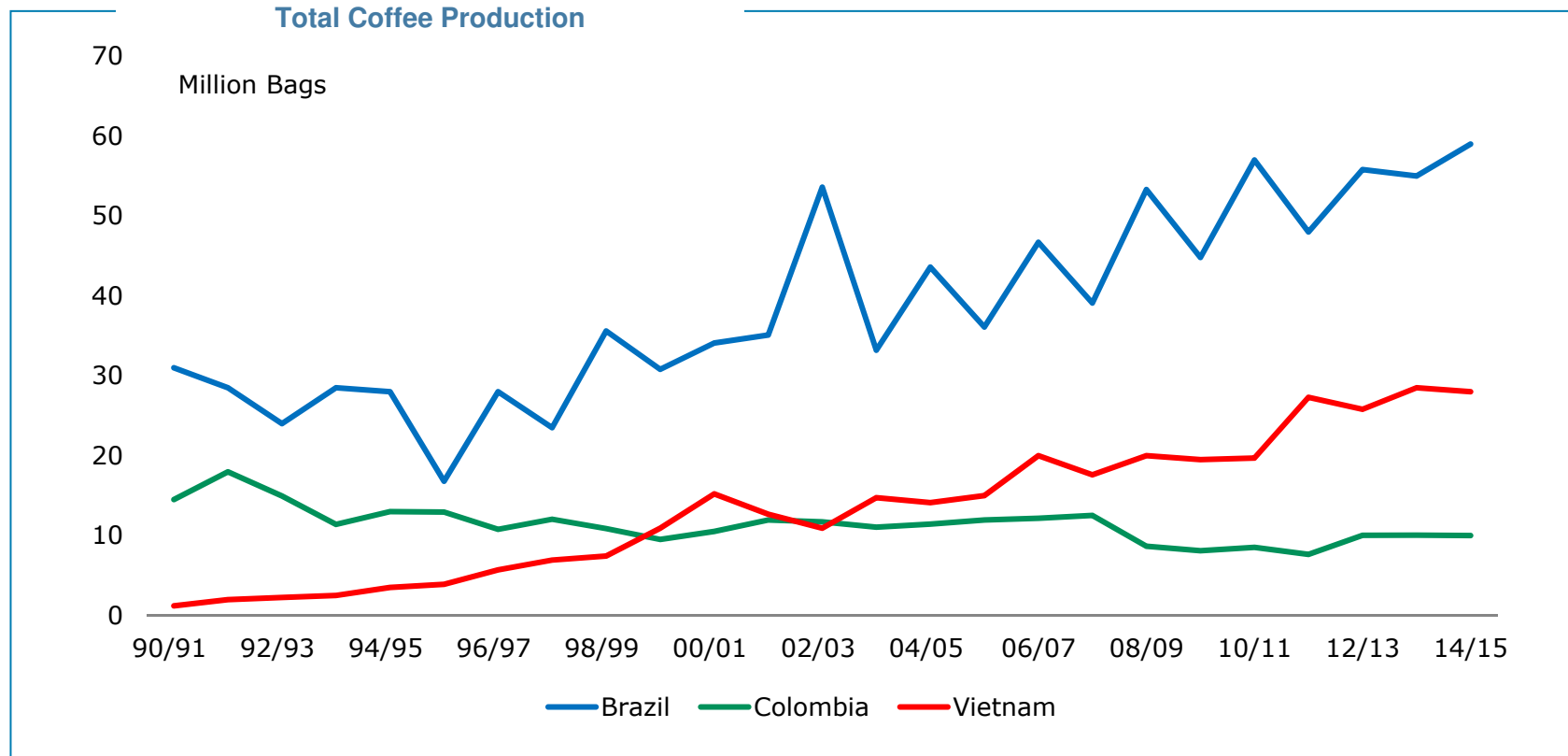


Source: BNP Paribas

**➤ Within the Arabica more Brazil has taken more share of the market due to lower cost production. This has occurred even with the rebound in Colombian production.**



# The Three Majors



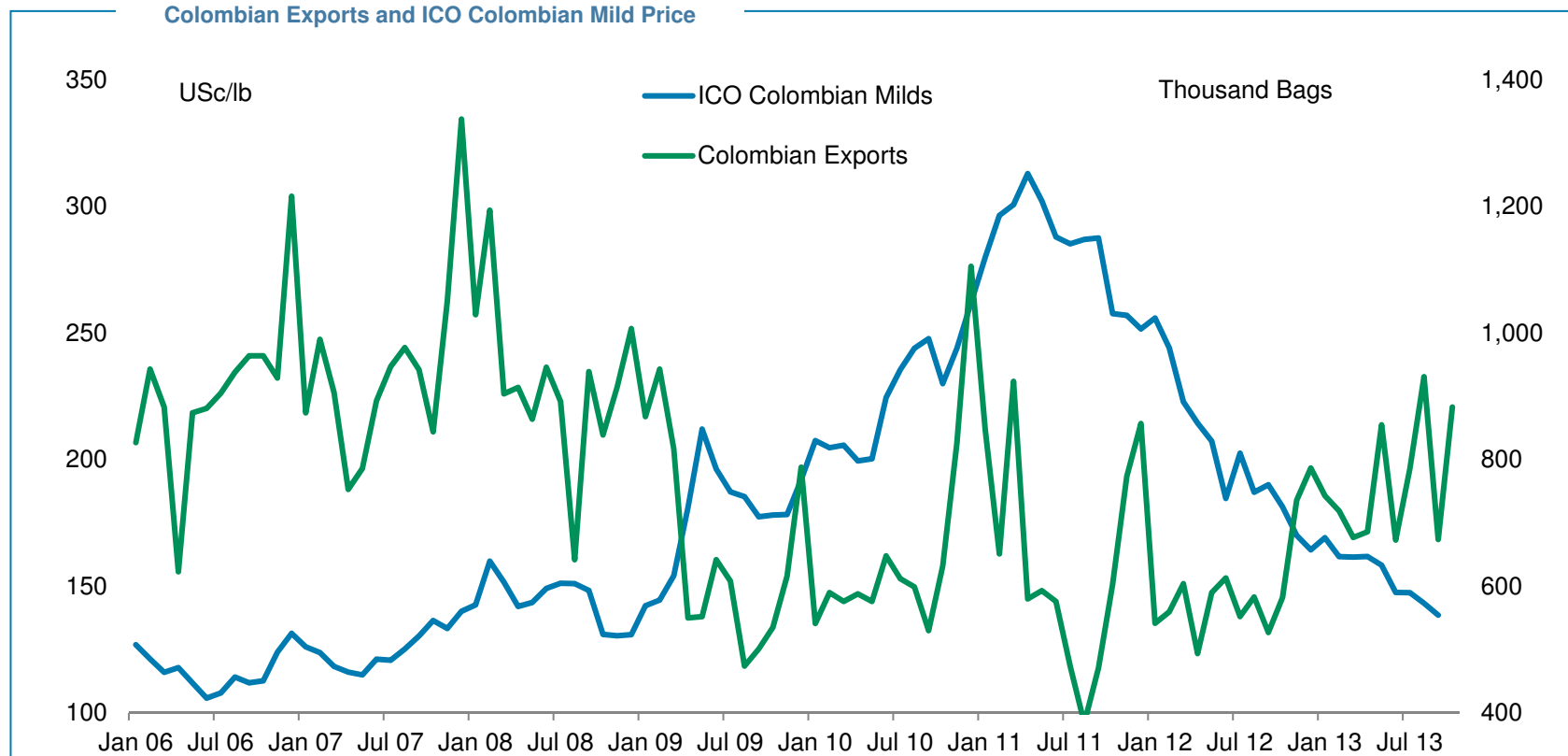
Source: BNP Paribas

▶ **The rebound in Colombian production is dwarfed by the growth in Brazilian and Vietnamese crops. As lower cost producers Brazil and Vietnam have continued to invest in production when many other regions are not covering the cost of production**





# Colombian Exports

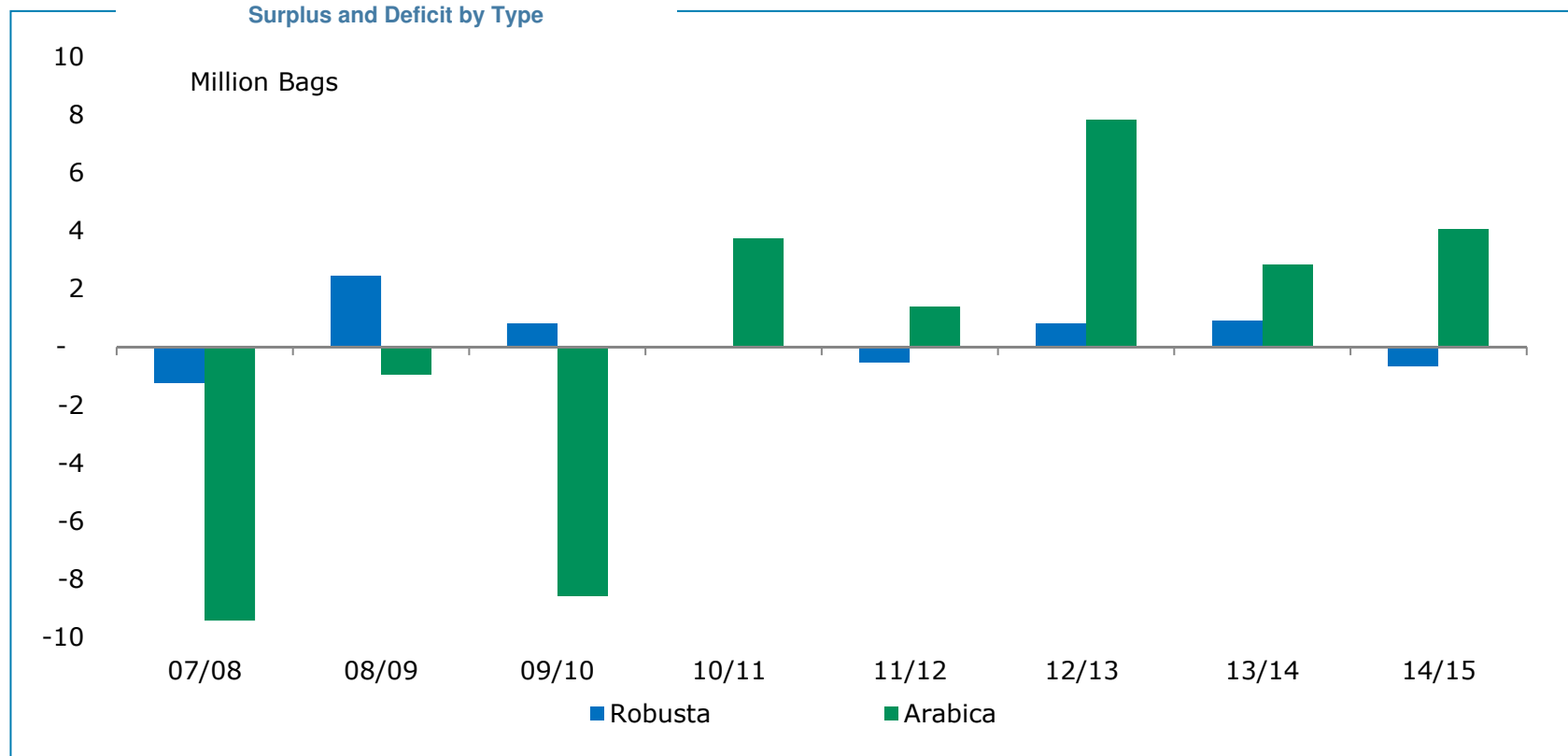


Source: ICO, BNP Paribas

▶ **Despite the falling prices exports has increased on the growing crop. The inability for farmers to hold back on sales has continued to pressure the local and ICE prices.**



# Supply Outlook

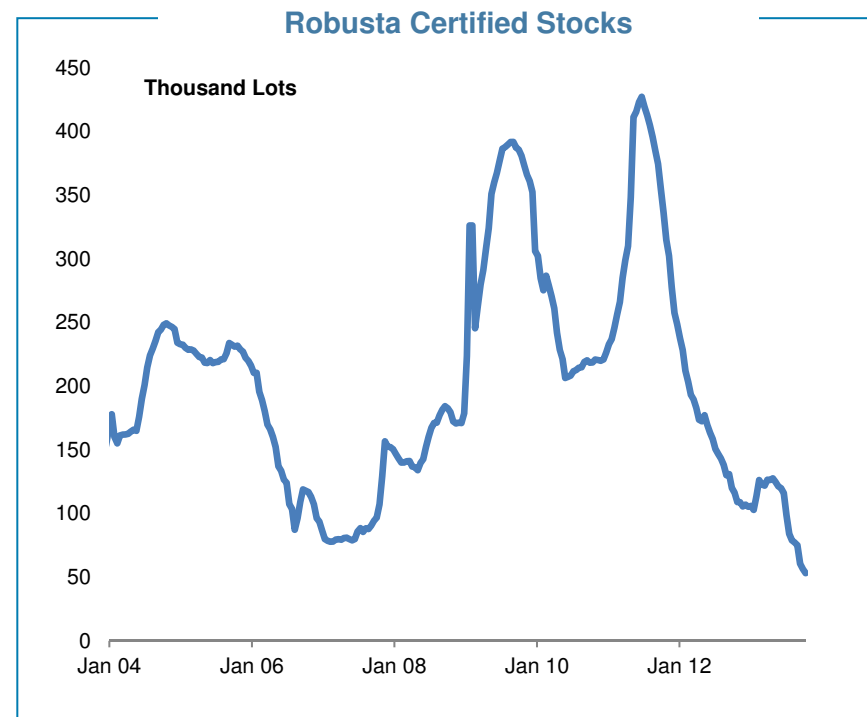
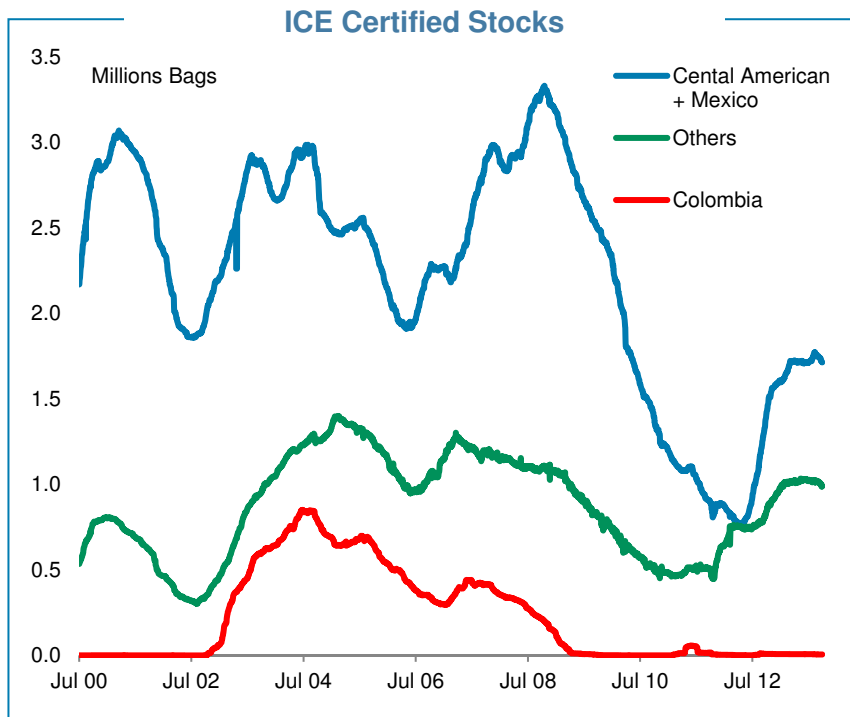


Source: BNP Paribas

➤ With a rally in 2011/12 encouraging production and reducing demand the market has realized Arabica surpluses, which in turn has sent prices lower. The Robusta market is tighter due to growing demand



# Certified Stocks



Source: Liffe, ICE, Bloomberg, BNP Paribas

➤ A majority of the growth in ICE stocks in the past year has been Central America and Mexico, and stocks are 1.9 million bags lower than 2008. Liffe Robusta stocks are at a ten year low.



# Brazil: a heavy burden

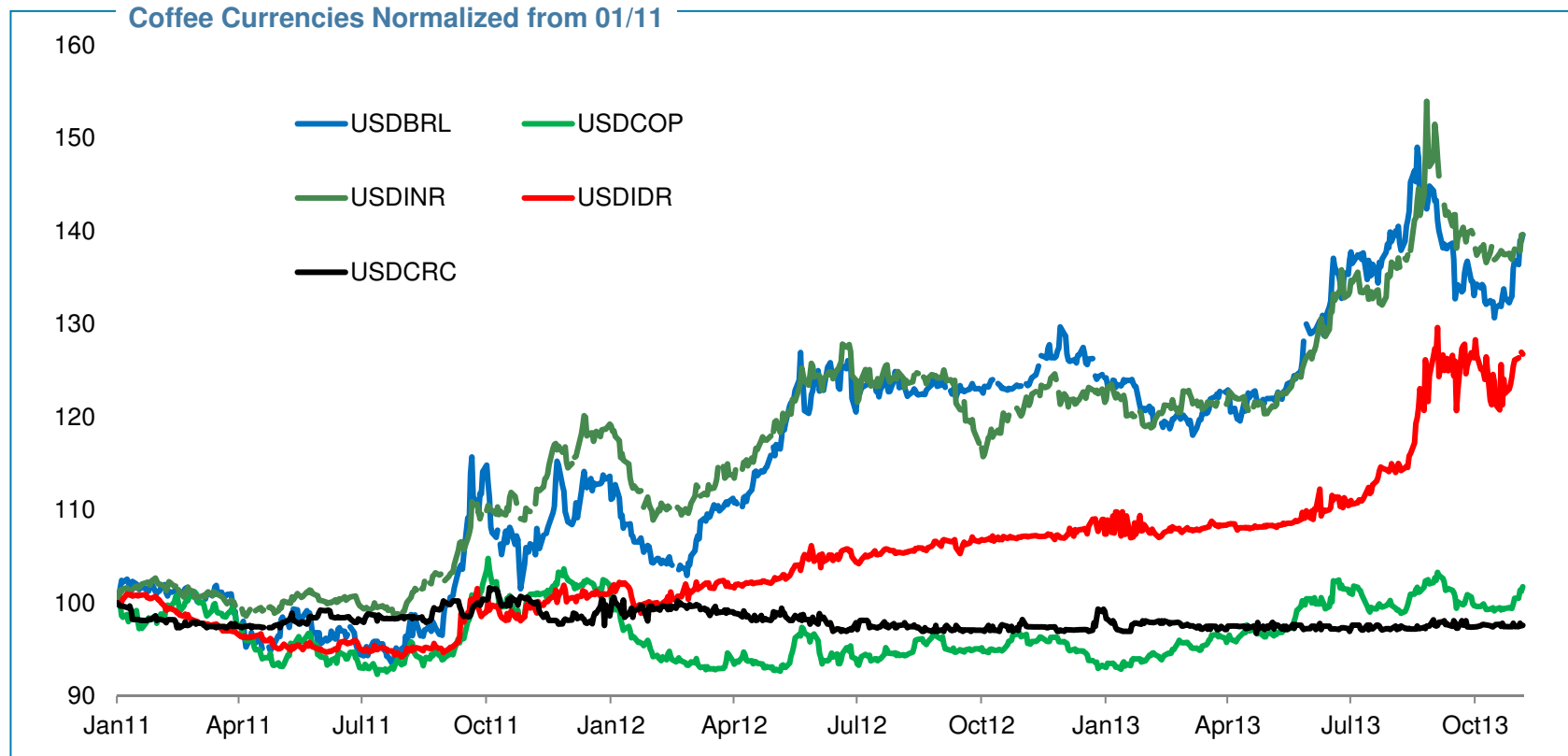
- The short term fundamental situation is bearish
  - Brazilian crop means supply will likely outstrip demand in 2014/15
- The Brazilian costs (and currency) have help it increase market share
- Robusta output is outpacing Arabica due to demand
- Certified stocks and global ending stocks have grown, but they are not at highs



### 3. Currency



# Coffee Currencies

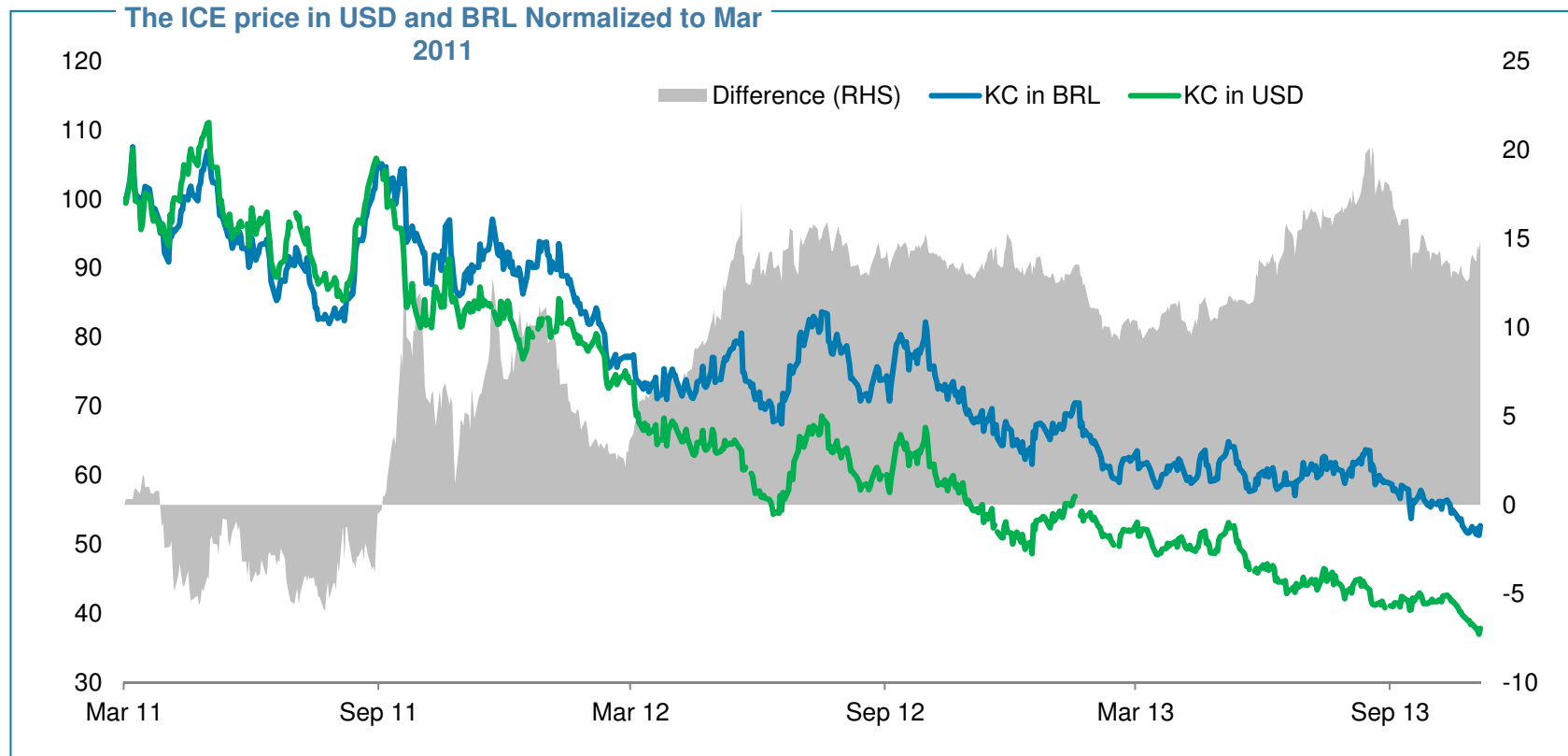


Source: BNP Paribas

▶ The Brazilian real and Indian rupee have fallen significantly since 2011, while the Colombian peso and many other coffee currencies have stayed more stable. The falling real has meant the drop in USD denominated ICE prices has been partially offset in real terms.



# ICE Arabica in USD and BRL



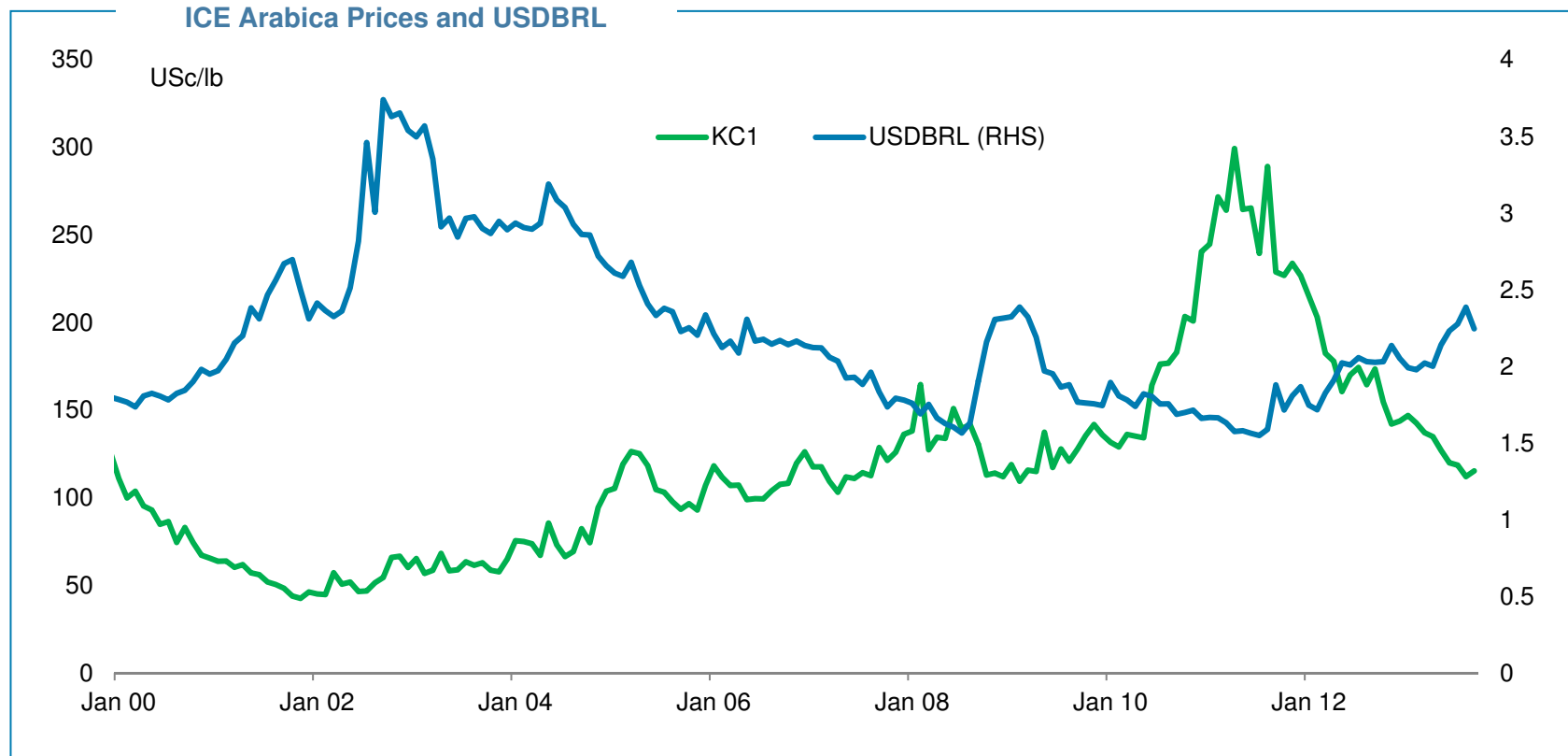
Source: BNP Paribas



The offsetting change in currency can be seen with the ICE Arabica price in BRL 14% higher than the same price in USD.



# USDBRL and ICE Arabica



Source: BNP Paribas



**A lower USDBRL in 2001-2005 allowed Brazil to produce coffee at a much lower cost than many other countries.**





# BNP Paribas FX Forecasts

BNP Paribas FX forecasts\*

	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	2014	2015
USD/BRL	2.45	2.50	2.55	2.75	2.60	2.57	2.55	2.50	2.60	2.45
USD/MXN	13.50	13.15	12.90	12.70	12.60	12.30	12.10	12.00	12.60	12.20
USD/COP	1950	1930	1920	1890	1890	1900	1880	1850	1890	1850
USD/IDR	11300	11800	11600	11600	11800	11800	11800	11900	11800	11700
USD/INR	62	65	70	70	68	65	66	67	68	70
USD/VND	21200	21300	21300	21400	21400	21500	21500	21500	21400	21500

\*Quarter and year end

Source: BNP Paribas



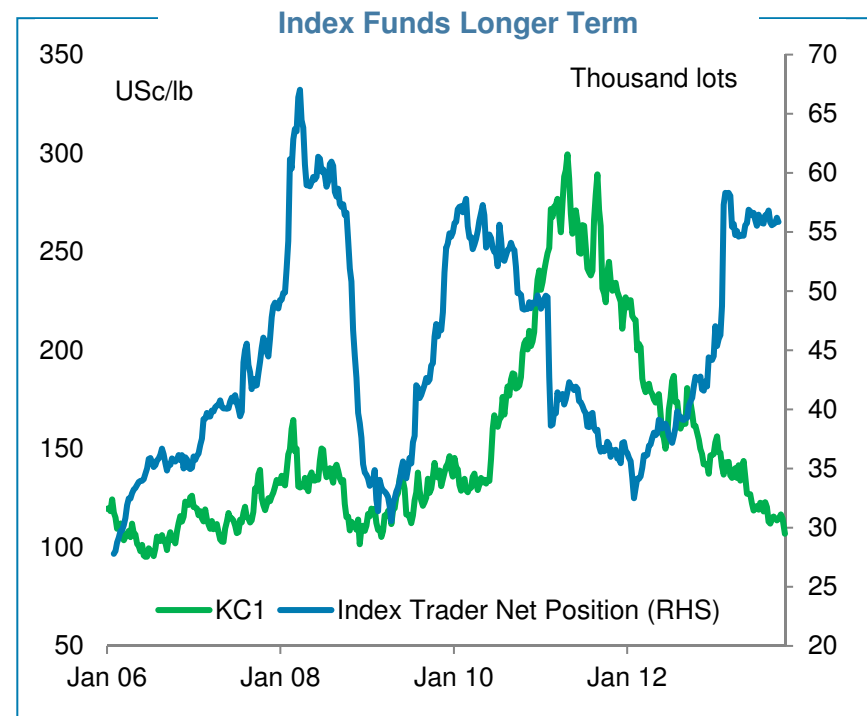
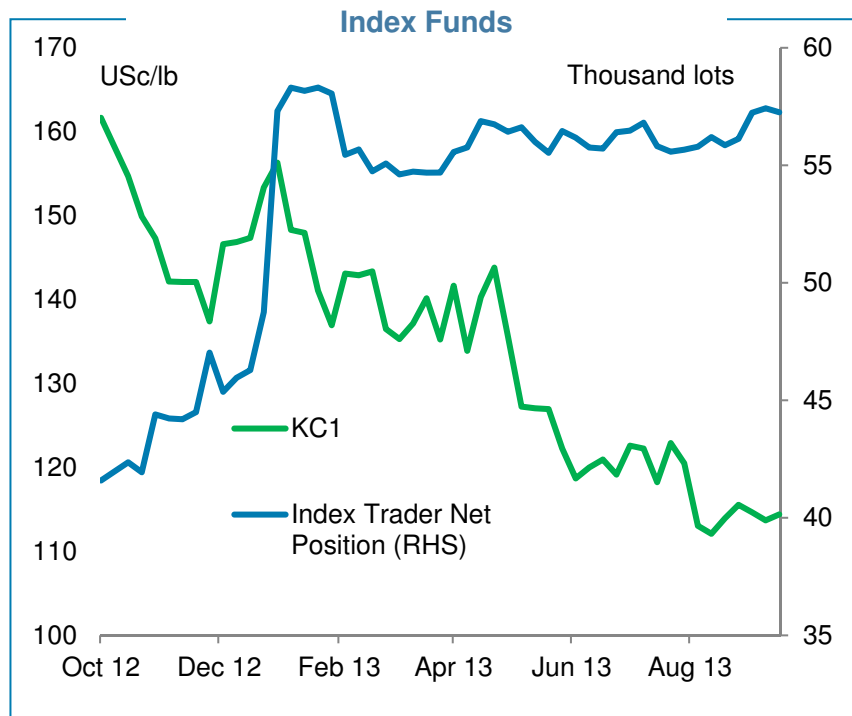
**A weaker outlook for USDBRL is bearish ICE Arabica prices.**



## 4. Funds



# Index Funds

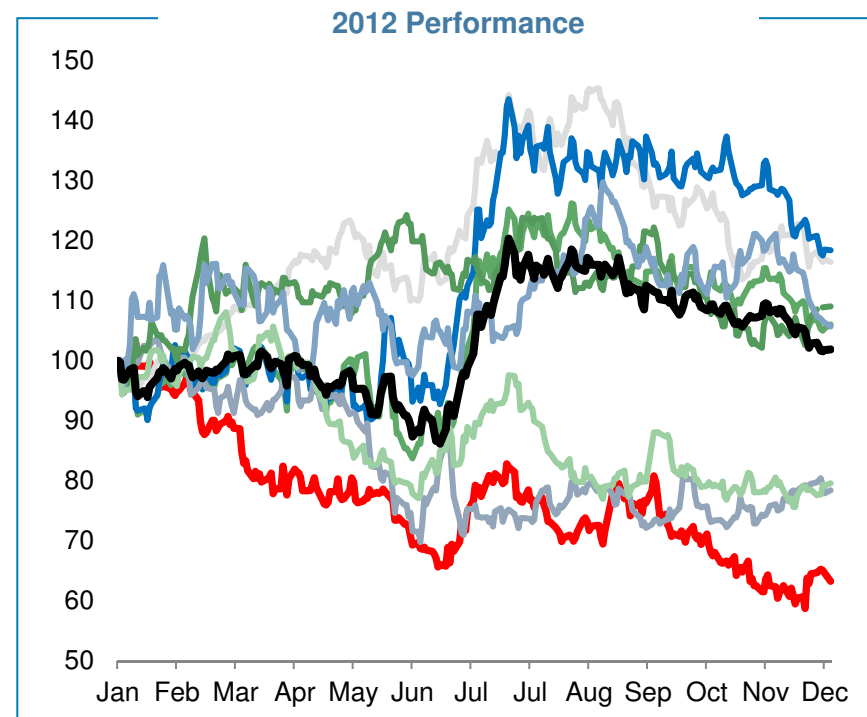
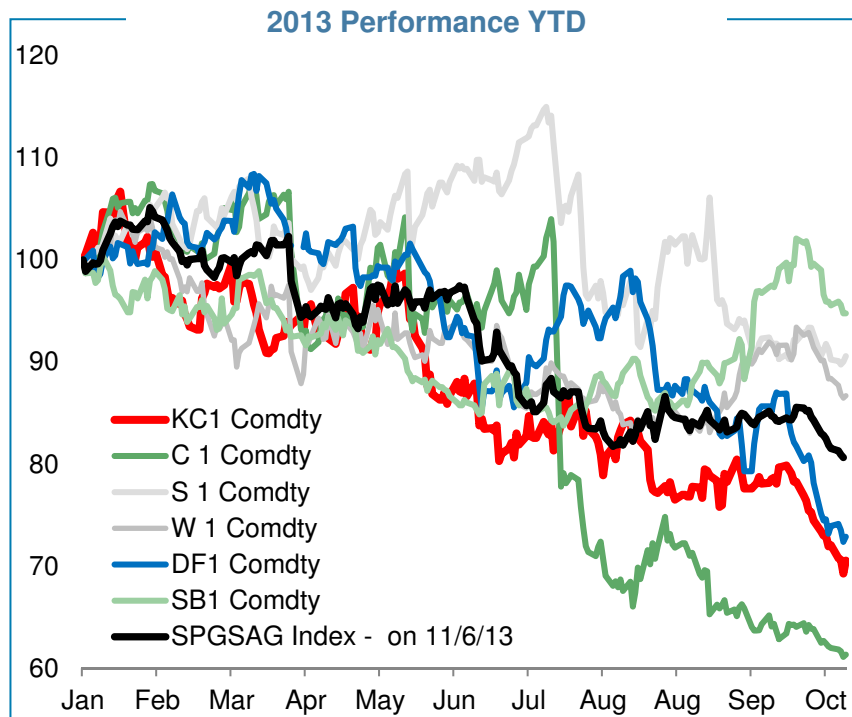


Source: Bloomberg, BNP Paribas

➤ **Index fund buying supported the ICE market in January 2013 (\*%), and buying is expected in 2014, but the scale of which is not expected to change market direction.**



# Arabica and other Agricultural Markets



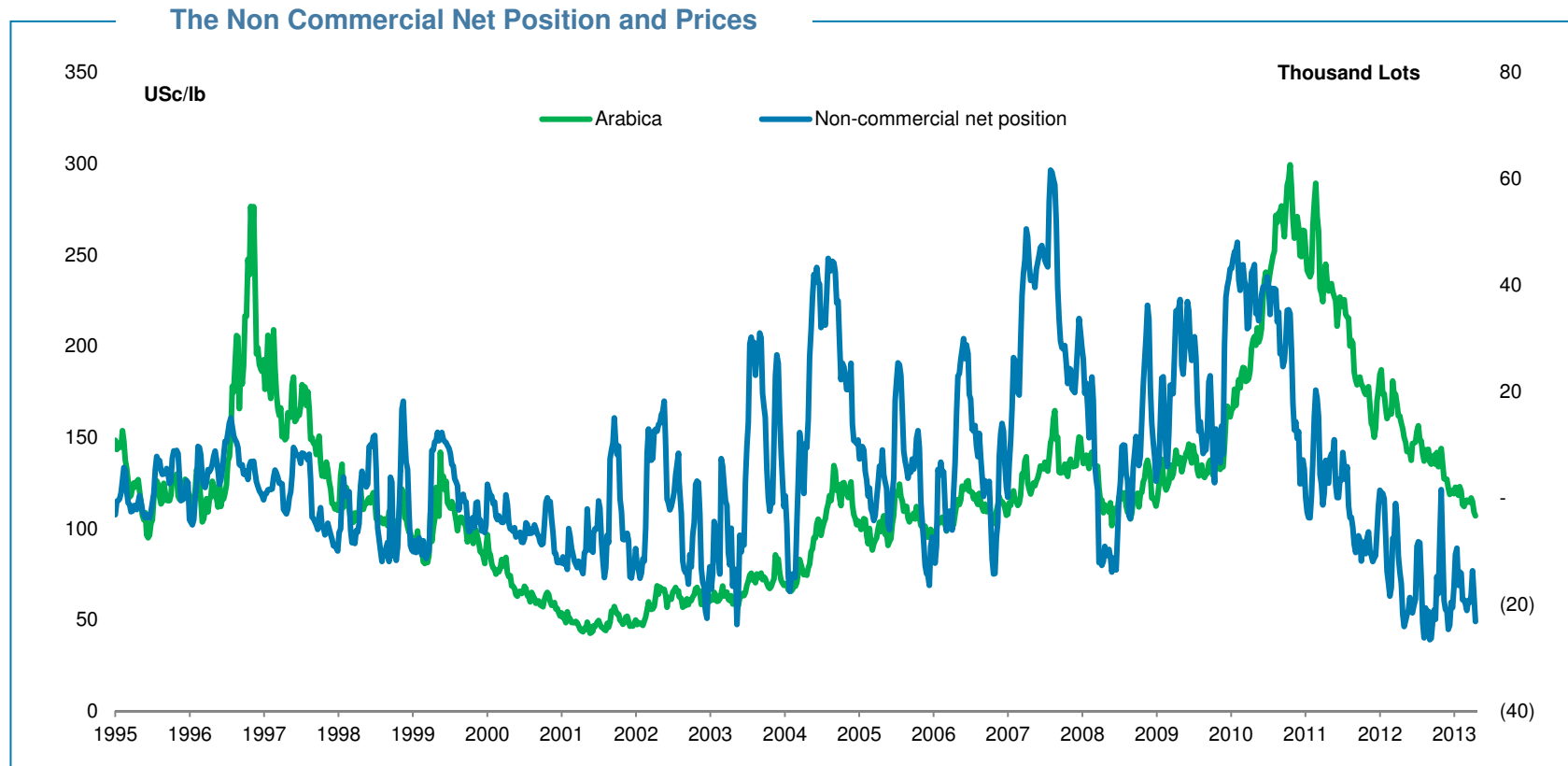
Source: Bloomberg, BNP Paribas



**In 2012 Arabica was the worst performer while in 2013 the much of the agri complex will have a negative year.**



# Non Commercial in ICE

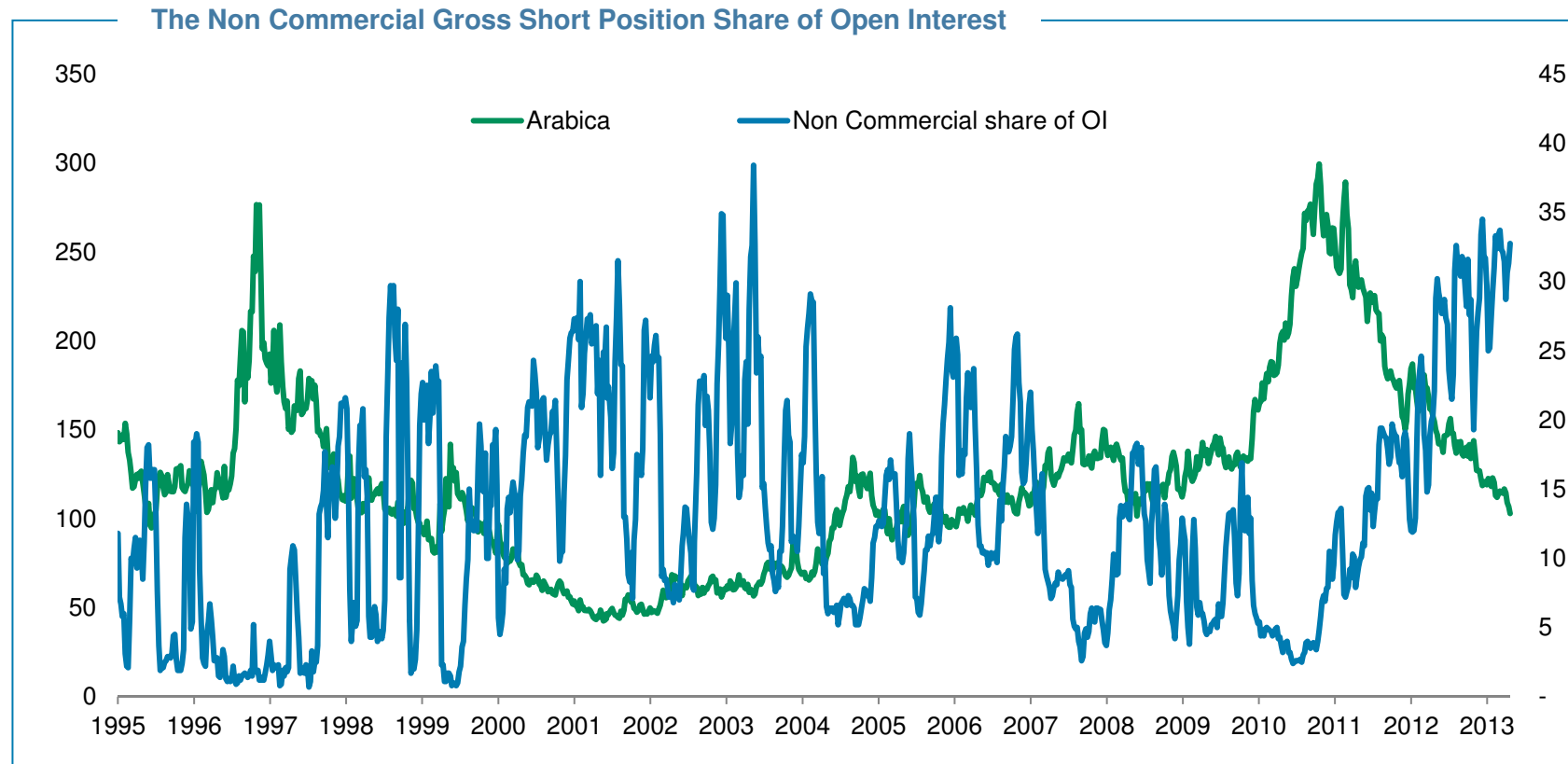


Source: CFTC, BNP Paribas

➤ **Speculators in the ICE Arabia market have built a large net short position due to the fundamental outlook for coffee. Further selling from current levels is likely to be muted.**



# Non Commercial Share of Open Interest

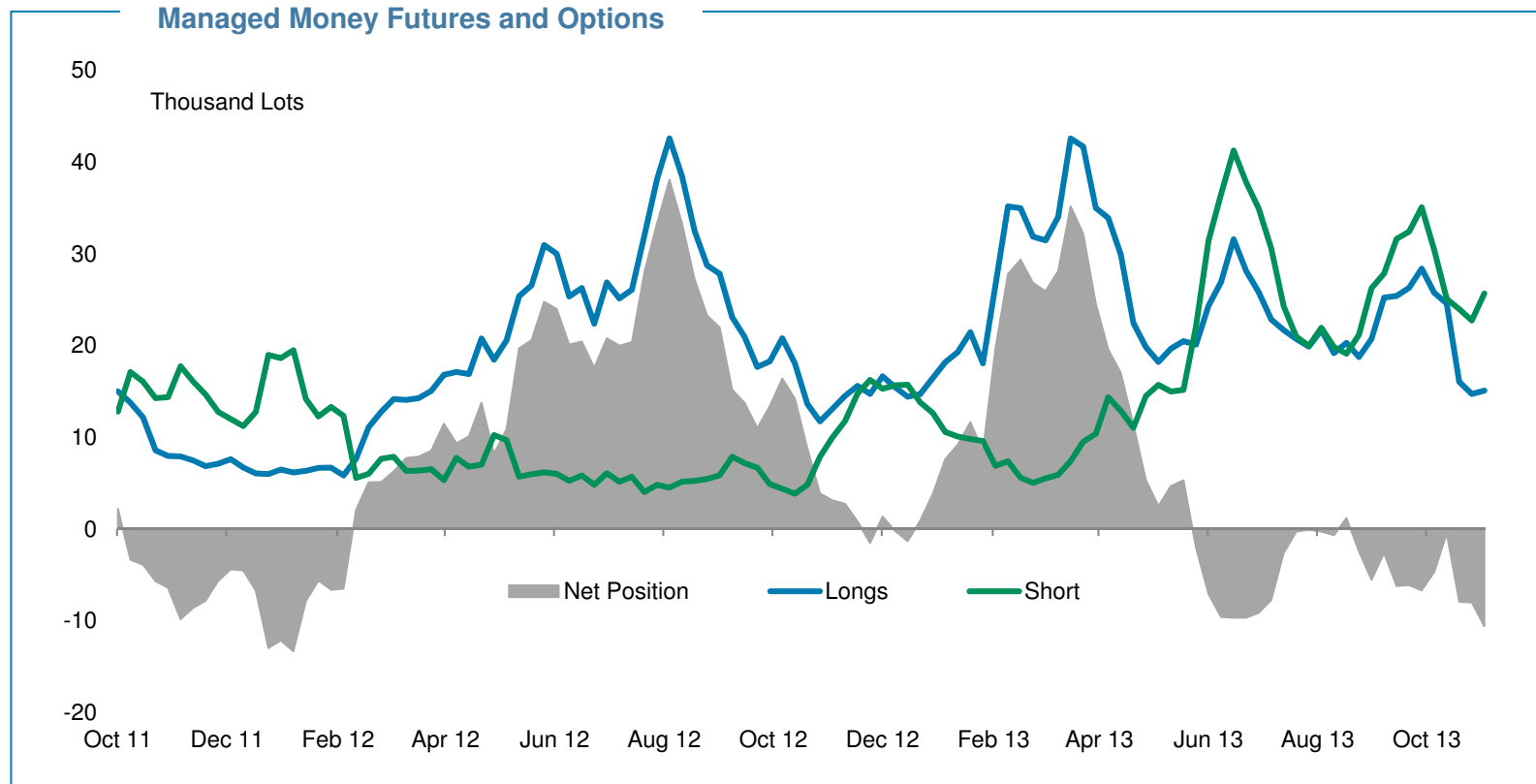


Source: CFTC, BNP Paribas

▶ The share of open interest of the non commercial gross short position has grown near record levels. We expect the position will remain large in 2014 similar to the period between 2001-2004.



# Liffe Market



Source: BNP Paribas



**Speculators are also short in the Liffe Robusta market, but the position is smaller than in Arabica.**

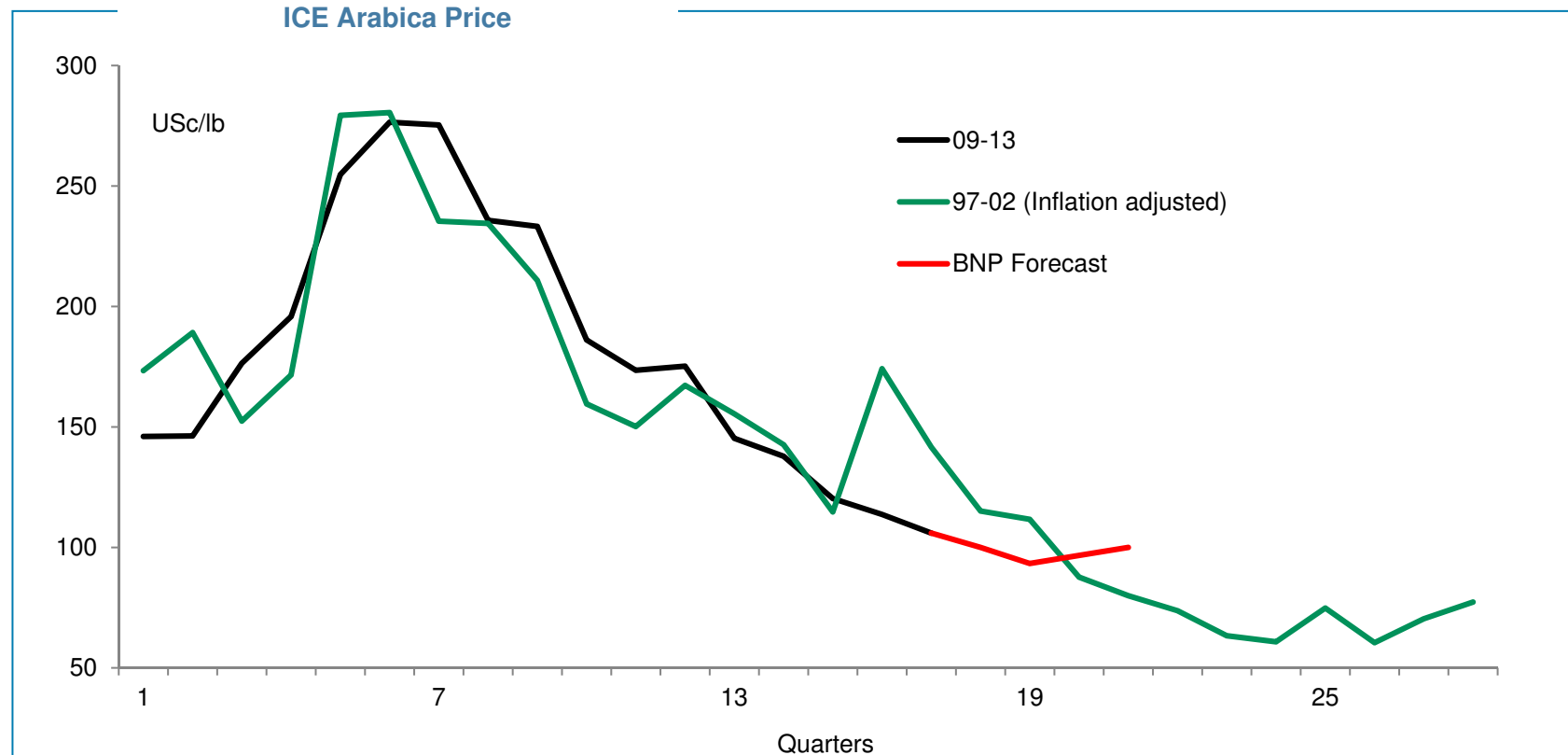


## 5. Outlook





# Arabica Price Forecast



Source: BNP Paribas

ICE Arabica prices are forecast to fall 6% from spot in 2014, due to good industry price cover and a weaker Brazilian real. Prices will bottom out in Q2'14 as Arabica demand increases and speculator selling appetite wanes as prices move below 100 USc/lb.



# Price Forecasts

- Arabica price weakness in late 2013 is expected to extend into 2014. A weakening BRL and a large Brazilian crop will be the main price movers, but as we expect Robusta to move higher after Q1'14 selling pressure, the arbitrage will begin to support Arabica and prices will reach a nadir in mid-2014.
- The already-large short position by managed funds suggests further selling pressure will be muted.
- Thereafter the prospects of the 2015/16 season, a Brazilian off year and a potential Arabica deficit, suggest market sentiment may shift

Forecast issue: 11/11/13

USc/lb	BNPP	Future Curve	BBG Median
Q1 13 (actual)	143	..	..
Q2 13 (actual)	132	..	..
Q3 13 (actual)	118	..	..
Q4 13	105	104	115
Q1 14	100	107	120
Q2 14	95	110	123
Q3 14	95	113	129
Q4 14	100	116	128
2011 (actual)	253	..	..
2012 (actual)	175	..	..
2013	125	..	..
2014	98	112	125

Source: Bloomberg, BNP Paribas \* Front month ICE contract averages



# Coffee Balance Sheet

Million 60kg bags								
18/10/2013	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	BNPP 13/14	BNPP 14/15
Beginning Stocks	50,211	39,555	41,034	33,272	36,954	37,802	46,407	50,146
Arabica Production	73,404	83,140	74,862	86,558	78,874	86,015	83,788	87,055
Robusta Production	47,763	53,432	53,797	55,651	61,929	66,301	67,901	68,033
Total Production	121,167	136,572	128,659	142,209	140,803	152,316	151,689	155,088
MY Imports	97,568	97,536	93,800	105,000	110,000	108,000	112,000	115,000
<b>Total Supply</b>	<b>171,378</b>	<b>176,127</b>	<b>169,693</b>	<b>175,481</b>	<b>177,757</b>	<b>190,118</b>	<b>198,096</b>	<b>205,234</b>
MY Exports	98,209	97,303	93,000	105,000	107,716	110,175	112,000	115,000
Soluble Use	16,500	15,185	15,400	17,400	18,100	20,100	21,000	21,200
Arabica Consumption	82,823	84,093	83,421	82,825	77,500	78,210	80,949	83,000
Robusta Consumption	49,000	51,000	53,000	55,702	62,455	65,501	67,001	68,700
<b>Total Usage</b>	<b>131,823</b>	<b>135,093</b>	<b>136,421</b>	<b>138,527</b>	<b>139,955</b>	<b>143,711</b>	<b>147,950</b>	<b>151,700</b>
Surplus/Deficit	- 10,656	1,479	- 7,762	3,682	848	8,605	3,739	3,388
Ending Stocks	39,555	41,034	33,272	36,954	37,802	46,407	50,146	53,534
Stocks/Usage	30.0%	30.4%	24.4%	26.7%	27.0%	32.3%	33.9%	35.3%

➤ **Four consecutive seasons of surplus (10/11-13/14) have resulted in downward pressure on prices, and this looks to continue into 14/15 as we forecast another surplus season.**



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