Low Prices - Causes and Consequences

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Currencies will likely continue to influence commodity prices

Price changes 01/Nov/2018 - 01/Nov/2019

Source: Bloomberg, Rabobank

ICE London Cocoa
ICE NY Cocoa
CME Lean Hogs
MDE-Bursa Palm Oil
CBOT Soybean Oil
CBOT Soybeans
S&P GS Ag Index
CBOT Corn
CBOT Soybean Meal
Matf Wheat
ICE White Sugar
CBOT Wheat
ICE No. 11 Sugar
Brent Crude
ICE Cotton
ICE Robusta
ICE Arabica

USDUAH Currency
USDIDR Currency
USDMXN Currency
USDINR Currency
USDRUB Currency
USDVND Currency
USDMYR Currency
USDGBP Currency
DXY INDEX
USDJPY Currency
S&P 50 Ag Index
USDCHF Currency
USDINR Currency
USDJPY Currency
USDCHF Currency
USDINR Currency
USDJPY Currency
USDCHF Currency
USDINR Currency
USDJPY Currency

Source: Bloomberg, Rabobank

CNY and VND commoved a lot in the past and VND could see a depreciation

# Winning
# MAGA
Changes in Brazilian exports dwarf the variations in any other country

Clear overproduction problem:

Policies should be aimed at reducing overproduction

Source: ICO, Cecafe, GSO, Rabobank 2019
Brazil situation
• Rabobank stock survey: finds 1.9m bags higher 18/19 arabica crop, to 45.9m bags

• Quality problems in the 2019 harvest, but masked by large old crop availability. Semi washed production dropped by almost 50% YOY.

2020/21 Outlook:
• It has been dry in arabica areas! Water availability is an issue in some areas.

• Some problems: Little frost and first flowering (largely lost)

• Gigantic main flowering could result in excellent quantity and quality in 20/21.

• Rate of pruning was higher during the harvest, but probably lower after the main flowering

• Rondônia has seen extreme temperatures for this time of the year, which could have impacted production there.

• Glyphosate concerns in Europe.

Source: Rabobank 2019
Forecast has been for wet weather since late Sep, but actual rainfall levels have been consistently lower.
A lot of coffee to come from Brazil, again

2016/17: 54m bags
2017/18: 49.2m bags
2018/19: 62.5m bags
2019/20: 57.6m bags
2020/21: 66.7m bags

Source: Rabobank 2019
Colombia looks stable at just under 14m bags

Colombian crop looks rather steady, just below 14m bags

Fnc launches machine that optimizes selective coffee harvesting by 50%

Source: FNC, local newspaper, Rabobank 2019
Central America is under pressure from low prices - 2019/20

Introducing a higher margin of error than usual

Source: IHCAFE, Rabobank 2019
Scary stories...

Honduras sales and exports (1 Oct - 07 Nov)

Source: IHCAFE, Rabobank 2019
Vietnam

2018/19: We still sustain a view of a crop of record level or at least very large, but stock piling was an issue. An increase in internal stocks is to be expected given a low market.

Vietnam (and India) differentials reached record high, posing a new risk to the trade.

2019/20: Rainfall reported below normal, but weather maps showed good cloud cover. We could potentially see another record.

Indonesia however looks on the dry side.

Source: Bloomberg, Rabobank 2019
Net Imports

Trackable coffee from customs data – adjusted by stock data in the US and Japan: Excellent consumption in non-producing countries, except in Japan.

Source: customs data, GCA, Rabobank 2019
Even scarier

Global exports from origin increased by approximately 8m bags higher YOY (Oct-Sep), largely because of Brazil

Trackable stocks in destination countries increased by 2.6m bags (total coffee).

Trackable disappearance into non-producing countries are up 3.6m bags YOY (12m to to June 2019).

Where is the rest?

Source: Rabobank 2019
Brazil exported a lot to other producers

Brazil export increase by destination (12 months to June 2019)

Source: Customs data, Rabobank 2019
Non-producing countries

5-year change in net imports - in 000’ bags

Source: Official customs statistics, Rabobank 2019. Estimates as of July 2019
Google trends: demand is doing well

Searches for
‘coffee’ worldwide:
‘cold brew’ worldwide
‘Specialty coffee’ worldwide

Source: Google trends, Rabobank 2019
Supply/Demand

2020/21 likely a small surplus. It will largely depend on demand, prices, mild production drop and Brazil weather.

Source: Rabobank 2019
Certified stocks

Million dollar questions:
- How much more conilon stocks will be certified?
- How much will certified arabica stocks fall. 0.5m bags? 1m bags? A 0.5m bag fall correlates to a 12 cent increase in arabicas

Source: ICE, Rabobank 2019
Funds were getting very short across agri commodities – not anymore

Source: Bloomberg, Rabobank 2019.
Non-Commercials in coffee remain short, but well below record levels

..as is expected in off-cycles. In case of a depreciation of the BRL they could get shorter.

Source: Bloomberg, Rabobank 2019.
But are they making money?

A little bit more than usual lately, mainly on US-China trade war

Source: Bloomberg, Rabobank. September 2019
Forecast: slightly bullish, amid a volatile environment

- Demand is doing well
- Weather: delayed harvest risk in C America and Vietnam; dryness in Brazil
- Central America & Ethiopia will be wild cards
- Lack of good quality Brazil arabica, combined with lower availability from Central America, Peru, and possibly Ethiopia should provide a lot of support for milds, especially as certified stocks decline. We tend to believe the market will see futures support as opposed to only differential.
- A supported BRL in case of a phase one trade deal.

Source: Bloomberg, Rabobank 2019
Thank You!